COMMUNITY CREDIT NEEDS ASSESSMENT, CITY OF OAKLAND

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COMMUNITY CREDIT NEEDS ASSESSMENT
CITY OF OAKLAND

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prepared for:

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Why not focus on capacity, not deficiency? Oakland has one of the richest minority communities in the nation, one of the best educated minority communities in the U.S. You have a larger middle class minority community here than in most cities in the country, but because of the history of discrimination, these people are not entrepreneurial. Oakland should adopt the "entrepreneurial city" as a theme to encourage local capital to invest in the City.

To provide program managers who can help by identifying good marketing data to present to lenders. Or have the lenders themselves apply their powerful market analysis capabilities to specify and define small business or affordable housing markets. This has been done in Philadelphia, in Chicago, in Meridian, Mississippi by a range of institutions: banks, community-based organizations, government agencies. Look at the opportunity, not only the deficiency.

--- Mr. Mike Freedland, Corporation for Enterprise Development

EXECUTIVE SUMMARY

COMMUNITY CREDIT NEEDS ASSESSMENT

INTRODUCTION

The provision of credit for commercial, minority, small business, affordable housing and non-profit community-based enterprise is critical to the economic vitality of any city. Providing for these credit needs is also an affirmative obligation of federally regulated financial institutions, as stated in the Community Reinvestment Act.

In recognition of the importance of affordable and accessible credit to the City, Oakland commissioned an assessment of community credit needs. This study has several purposes:

- identify credit problems and needs from the lender, broker and borrower perspectives;
- broadly estimate the size, or market, for several areas of credit need:
  - low and moderate income housing new construction, rehabilitation and acquisition;
  - single-family home purchase for first time moderate income home buyers in low and moderate income and minority neighborhoods;

- rehabilitation loans to low and moderate income homeowners in low and moderate income and minority neighborhoods;

- small business commercial credit needs, particularly among minority and women-owned enterprises and businesses located in or serving low income and minority neighborhoods, or employing significant numbers of low and moderate income and minority residents of Oakland, and non-profit community-based enterprises;

- identify lender credit practices, if any, which help perpetuate the unmet credit needs of small businesses, community-based organizations, affordable housing developers, first-time home buyers and homeowners in low and moderate income and minority neighborhoods;

- suggest credit practices, loan products, underwriting policies, and public/private credit programs which may help resolve unmet credit needs in Oakland.

The results of the community credit needs assessment will be used to help shape two policy proposals for the City of Oakland:

1. A city linked deposit ordinance. This ordinance will propose linking the deposit and investment of City funds to the affirmative and responsive efforts taken by individual lenders to meet community credit needs.

2. An Oakland Community Reinvestment Task Force. The Task Force will provide a permanent forum comprised of lenders, community representatives and City officials, where community credit needs may be reviewed and credit programs involving lenders and appropriate government entities are established.

METHODOLOGY

This study relied chiefly upon direct interviews with wide-ranging representatives of borrower, lenders and intermediaries in both residential and commercial lending. Nearly 100 interviews were conducted. A list of interviewees and the interview questionnaire is appended to this report.

A 1979 study entitled An Income and Capital Flow Study of East Oakland prepared by Community Economics was reviewed. Housing need data included in Oakland's Housing Assistance Plan submitted to the U.S. Department of Housing and Urban Development were used to estimate the volume of credit needs in the area of affordable housing. No similar database was found to exist describing small business, minority enterprise or non-profit commercial credit volume in Oakland. Where appropriate, data from the Small Business Administration of the U.S. Department of Commerce were reviewed.

For both commercial and affordable housing credit needs, the study focused on the particular needs within the City's seven Community Development Districts. These are illustrated in the map on the following page. The seven CD Districts all lie below the MacArthur Freeway, encompassing most of East and West Oakland, parts of the downtown, the Fruitvale District, and other predominately low income and minority neighborhoods within the City.


COMMUNITY DEVELOPMENT DISTRICTS
City of Oakland, Office of Community Development
North Oakland
San Antonio
Fruitvale
Elmhurst
West Oakland
Chinatown and Central
Central East Oakland

Racism and Image in Oakland: Effects on Investment and Credit Availability

By far the single most pervasive, and most troubling, reasons respondents gave for the lack of adequate investment capital in Oakland was racism. Widely repeated statements alleged that lending practices resulted in a racist effect: the discriminatory denial of credit to minorities in comparison to its availability for non-minorities. Respondents particularly felt this was true for lending to small businesses and minority enterprises. Many others also commented that the same phenomenon applied to credit available for affordable housing in the City. Respondents from both diverse ethnic backgrounds and widely different sectors in small business, housing development, non-profit service organizations, appraisals, brokerage--even lenders themselves--asserted that racial prejudice and racist practice severely restrict access to capital for minority businesses and in the City's low income neighborhoods.

Intertwined with the widespread assertion that racial prejudice in lending and appraisal practices undermines the availability of credit in Oakland was the statement that the City suffers from a serious problem of public image. Respondents from small businesses, community-based organizations and lending institutions in particular expressed concern about Oakland's image as a city ridden with drugs and crime. Secondary image problems concerned the adequacy of the City's school system.

These samples of respondent remarks cited below give voice to this concern:

> "(Lender X) very clearly states verbally their redlining practices. In many lenders, it's blatant internally. You'll never get anyone to admit it though. It's subtle."
>
> --- Credit Officer, SBA Specialty Lender
>
> "The FHA appraiser said "any white person caught in that area would be dead in the morning.""
>
> --- An Appraiser
>
> "Different appraisers look at properties in West Oakland differently. The white women appraisers are the worst. They're truly scared of the neighborhood. Older appraisers are better. They've been around and have seen it all. The prejudice and mindset about Oakland's image is astonishing. It's almost impossible to reverse, or get around. We did research on our neighborhood in West Oakland about crime statistics. We went to the Oakland Police Department and actually plotted crimes that have occurred over a several year period on a map of the neighborhood. Only three crimes were reported over, I don't know, maybe five years in that particular area. We showed these numbers to the appraisers. We show them to lenders. It didn't make any difference to them. They just said, well that's a really bad area. The home isn't worth much. We won't lend there."
>
> --- West Oakland Homeowner and Housing Attorney
>
> "When a Black entrepreneur walks into a bank, there's an atmosphere, a feeling you get. In the South at least there's a prevailing honesty. They tell you, "I don't like you and I want you to know I don't like you." It's more subtle here. "I will not let you gain in the economic arena."
>
> "Underwriting is a subtle way of handling the underlying racial concern. In most cases, it's going to depend on the CEO. If a bank CEO has concern at the top, a concern with meaning and meat on it, the lower level staff will

jump. But if there's no such leadership, that little credit agent that's trying to get a promotion, they're going to go by the book."

--- President, Non-Profit Business Service Organization

"Our office is at 28th and Cypress. At the office in front of ours, some guy came in and laid the people out. "I've killed you white boys before, and I don't mind doing it again."... "It's not a place you'd want to invest a lot...it may be considered redlining, but I think it's wise on their (the lenders') part."

--- Contractor

"People have told me no for a loan because it's in Oakland. If this deal were in suburbia we'd do it all day long. All types of institutions say this. I wouldn't want to name institutions."

--- Commercial Developer

"We're finding systematic redlining in Oakland. Particularly in the multi-family area, but also some in the single-family area."

--- Mortgage Broker and Real Estate Broker

"We probably did have institutional racism several decades ago. We hope we've inculcated in our people that we're part of the community, and that that can no longer continue."

--- Executive Vice President, Large Commercial Bank

Another disturbing element of interviewees' comments on racism pertain to the Japanese. Several respondents noted that Japanese investors, corporations and managers carry racist attitudes toward Blacks in particular. One respondent, an accomplished developer with personal ties to Japan, remarked on the Japanese reluctance to invest in a city with a large Black population.

Almost equally prevalent in respondents' comments were concerns about the image of Oakland, and its dampening effect on the availability of investment capital.

In the aggregate, these statements indicate a widespread belief that race and the image of Oakland determine to a large degree the availability of investment capital for small businesses and affordable housing.

SMALL BUSINESS, MINORITY AND NON-PROFIT ENTERPRISE CREDIT NEEDS

Oakland's small business market is diverse and difficult to define in quantitative terms. Neither lenders, federal regulators, the City, the State, community organizations or Chambers of Commerce have estimated the size of the small business market in Oakland by any quantitative measure: neither by number of businesses, sales volume, income or credit needs. Futhermore, no uniform definition of "small businesses" exists.

Both the absence of quantitative small business market data and any uniform definition of "small businesses" frustrate efforts to measure the size of Oakland's small business sector, and the size of its credit needs.

Types of Small Businesses with Unmet Credit Needs

The study found several types of small businesses with serious unmet credit needs. These included:

- Businesses with less than several million dollars in annual gross sales which seek loans of less than $50,000 to $100,000;
- Start-ups;
- Businesses with limited management capability;
- Businesses with limited equity interest, particularly real estate equity;
- Minority-owned enterprises, including Black-owned, Hispanic-owned and Asian-owned small businesses;
- Non-profit community-based organizations with commercial credit needs for both daily operations and commercial enterprises;
- Small businesses located within the seven Community Districts of Oakland;
- Mixed-use commercial development enterprises.

Pricing and Terms

The key issue consistently mentioned with respect to needed loan products was access to the types of loans needed, not their costs. However, several respondents did note that commercial loans are invariably priced at adjustable rates, one to three points above prime, with no cap on how high the rate may go. These respondents expressed concern that the potential risk of a sharp increase in interest rates proved sufficient deterrent for them from securing credit. Several non-profit organizations noted this concern as well.

In addition to price concerns, a number of small businesses expressed concern about the relatively short term offered for amortizing conventional small business finance. Typically, lines of credit are amortized over a one year repayment schedule. Working capital and equipment purchase loans typically are written for three years. Rarely are they written for longer than five years. Many real estate acquisition development loans are written for five year terms. The longest conventional terms available for commercial real estate finance seem to run five to seven years.

The chief advantage cited for SBA loan products, particularly their real estate loans (502, 503, 504) is the much longer term offered: 15 to 25 years.

Considerable disagreement and confusion exists among respondents regarding the value and requirements of SBA loan programs. Prospective borrowers frequently complained of too much red tape and long delays in processing time. Lenders registered with the SBA under the Preferred Lender Program and the SBA itself describe different processing times for SBA loans.

Consequences

Small businesses in Oakland suffer from the relative unavailability of several types of loan products. They also suffer from a lack of access to capital resulting from how lenders define small business markets for themselves. For example, businesses seeking smaller loans or start-up loans, non-profits and self-employed individuals frequently must turn to other, more costly sources of credit. By paying exorbitant rates for credit when absolutely necessary, or simply going without credit even though it is needed, the growth of many small businesses is stifled. So called high risk lenders include asset-based lenders and factoring companies.

Another problem for small businesses in Oakland's Community Development Districts is the predominance of absentee ownership. As renters, small businesses are effectively unable to borrow funds to rehabilitate their stores. More often than not, absentee owners are unwilling to incur the expense of rehabilitation for commercial properties they own in the traditionally disinvested neighborhoods of Oakland. The result is these properties continue to decline, generally depressing property values throughout the neighborhood. A vicious cycle of disinvestment is perpetuated.

Standard underwriting practices for small business lending were found to have numerous adverse consequences for small businesses in Oakland. These include:

Equity	The unintended consequence of requiring equity from borrowers is that lending to minorities and non-profit organizations is retarded. Minority-owned enterprises are historically smaller, poorer, and endowed with fewer assets and equity than their majority counterparts. Non-profits are required by the Internal Revenue Service not to earn a profit, not to accumulate the ownership of assets.
Collateral	Heavy collateral requirements for small business operators tie up all personal and business equity. This leaves little room for flexibility in their financial planning and assignment of assets to both their business and personal financial needs.
Appraisals	Appraising the value of real estate emerged as a critical problem for small businesses in Oakland. Regardless of which appraisal method is used--income, replacement, comparable cost--appraisers undervalue real estate in Oakland's seven Community Development Districts. One respondent noted the particular problems of appraisals imposed by the federal regulation R(41)(c), which requires lenders to steeply discount the value they assign to real estate used as loan collateral. Regardless of where the truth may lie in the practice of real estate appraisal and its use by lenders, it is clear that appraisals of real estate used for collateral for Oakland small businesses has a severe dampening effect on the availability of credit to minority-owned businesses, businesses located in low income neighborhoods, and owners of small businesses who themselves reside in low income and minority neighborhoods.

AFFORDABLE HOUSING CREDIT NEEDS

Unlike the small business market, relatively reliable data exist to define the size and nature of affordable housing credit need in Oakland. The housing market is generally divided into two parts: (1) owner-occupied, single family housing of one to four units; (2) rental housing. Special needs groups are also identified by the City, generally among renters and the homeless. Credit needs for five areas of affordable housing are quantified in the Community Credit Assessment. These credit needs are summarized in the following Table and include:

- Single-family one to four unit mortgage purchase loans in the seven Community Development Districts;
- Home improvement loans;
- Rental rehabilitation loans;
- Rental housing construction and permanent financing loans;
- Bridge loans associated with low income housing projects developed by non-profits using the Low Income Housing Tax Credit.

SUMMARY OF OAKLAND'S AFFORDABLE HOUSING ANNUAL CREDIT NEEDS

Single-Family 1-4 Unit Mortgage Purchase Loans in 7 CD Districts	1,000/year	$90,000 avg. loan size	$ 90	million per year
Home Improvement Loans	969 units (12% of 8,058 units in need)	$17,500 avg. loan size	$ 16.9	million per year
Rental Rehabilitation Loans	570 occupied units (12% of 4,751 in need)	$20,000 avg. loan size	$ 11.4	million per year
	93 vacant units (25% of 374 units in need)	$30,000 avg. loan size	$ 2.8	million per year
Rental Housing Construction ($85,000/unit development cost)	500 units affordable below 80% median income	Construction loans @40% development cost	$ 17	million per year
		Permanent loans @30% development cost	$ 12.75	million per year
Bridge Loans	1989 Oakland Housing Partnership		$ 10-16	million

TOTAL AFFORDABLE HOUSING ANNUAL CREDIT NEED: **$160.8 - $166.8 MILLION PER YEAR**

Another important credit need for affordable housing in Oakland addresses the problem of preserving affordable rental housing at risk of losing its federal subsidy. Oakland staff estimate there exist between 1,200 and 1,400 units under for-profit ownership which may be at risk of converting to market rate housing, thereby displacing low income tenants. Non-profit housing development corporations in the City have both expressed deep concern over preserving these units as an important, existing resource of affordable rental housing. Lenders may be called upon to play a role in assisting the preservation effort by extending acquisition loans to non-profits, refinancing loans for profit-motivated owners who choose to maintain affordable rents, and possibly for rehabilitation funds to refurbish these older projects.

Both non-profit housing development corporations and City staff note the reluctance of commercial banks and thrifts to make acquisition and construction loans available for single-room occupancy (SRO) hotels. SRO hotels provide a greatly important housing resource for very low income individuals and families. They often represent the last housing resource protecting these households from homelessness. Construction and acquisition loans for SRO hotels remain a vitally important credit need for affordable housing to some of Oakland's neediest tenants.

The limited scope of this study prevents an analysis of the volume and influence of federal mortgage guarantee and secondary market programs on

the single-family mortgage market in Oakland, especially in its low income and minority neighborhoods. Many respondents, however, noted that Federal National Mortgage Association (FNMA) appraisal guidelines and Federal Housing Administration (FHA) credit requirements were more a hindrance than an aid in assuring the availability of mortgage loans in Oakland's low income neighborhoods.

Mortgage brokers and high priced, unconventional lenders were found to predominate in the seven Community Development Districts. These are areas where more traditional lenders are much less active than other neighborhoods in the City. The 1979 Community Economics Study of income and capital flow for East Oakland found this to be a longstanding concern not only for affordable housing but for small business lending as well. The net result of disinvestment by traditional lenders in the CD Districts leaves local residents and merchants paying inordinately high interest rates and fees for mortgage financing.

An estimated 6,145 homes located within the CD Districts are owned by low income families and in need of rehabilitation. Despite rehabilitation loan programs operated by the City, no evidence was found of any lender offering or marketing home improvement loans.

Instead, virtually all conventional lenders today offer home equity loans. Concerns were expressed by some respondents that home equity loans are:

- not necessarily used for home improvement;
- fiercely marketed by traditional lenders as one of the few remaining consumer debt interest deductions allowed by the 1986 Tax Reform Act;
- dangerous debt for low income homeowners to acquire, since the lender's recourse is to the borrower's home;
- possibly reported by lenders as home improvement loans under the Home Mortgage Disclosure Act when they may not be used for home improvements at all.

Construction and permanent lending for low and moderate income rental housing remains a critical credit need in Oakland. In recent years the new construction and rehabilitation of rental housing affordable to low income households has been almost the exclusive domain of non-profit housing developers. These developers of low cost rental housing have relied heavily on a small number of construction and permanent lenders. These lenders have emerged through their commitment to community lending programs under the Community Reinvestment Act (CRA) and through discounted mortgage funds available from the Community Investment Fund (CIF) of the Federal Home Loan Bank Board of San Francisco.

Several institutions in the Bay Area have made notable commitments to community lending programs under CRA. These include Wells Fargo Bank,

California First Bank and Citicorp Savings. Each of these agreements resulted in discussion and negotiation with the California Community Reinvestment Committee, an ad hoc coalition of low income housing and community economic development advocates, public agencies, consumer advocates, legal service agencies, and public interest law firms. The City of Oakland, along with other local jurisdictions in California, has participated in CRA negotiations with these lenders.

In each case these three institutions committed themselves to construction of permanent loans for low cost rental housing, especially those developed by non-profit organizations. California First Bank also committed itself to home purchase loans for lower income, first-time homebuyers.

Another institution which has been relatively active in the use of CIF monies is the Savings Association Mortgage Company (SAMCO). SAMCO is a volunteer, for-profit consortium of approximately 60 thrifts which has advanced roughly $80 million in loans for low and moderate income multi-family housing projects.

A new program of community lending is currently under development in California to the sponsorship of the Federal Reserve Bank of San Francisco. Named the California Community Reinvestment Corporation, not to be confused with the California Community Reinvestment Committee, the

effort is designed to establish a $100 million revolving loan pool committed by a consortium of commercial banks. Not unlike SAMCO, this loan pool would make investments in low and moderate income housing projects, developed predominately by non-profits, and shared in by participating commercial banks. The success of this effort will depend upon its creation of a secondary mortgage market for its loans. As noted above, $100 million barely meets half the annual credit needs for affordable housing in Oakland alone, let alone the statewide credit needs in this area.

Underwriting

Several underwriting issues emerged as central to unmet credit needs in the area of affordable housing in Oakland. These include:

- location of properties within the seven Community Development Districts;
- discounting loan-to-value ratios for properties located within the seven CD Districts;
- inflexible credit standards;
- vacancy rates, debt coverage ratios and loan-to-value ratios inappropriate to affordable rental housing projects;
- lack of recognition of the development track records of non-profit housing development corporations;
- relative unwillingness of lenders to originate either construction or permanent loans for relatively small projects, which are better suited to the in-fill and neighborhood acceptance requirements of Oakland's neighborhoods.

As with small business commercial lending, the practice of appraisals emerged as a major barrier to obtaining needed credit for affordable housing in Oakland. The appraised values of properties located in lower income and minority neighborhoods of the City are routinely depressed for several reasons:

- appraisers cannot find comparable sales data;
- appraisers are unfamiliar with the neighborhoods, and carry personal biases against the neighborhoods;
- R41c evaluations lead to depressed property values assigned by lenders;
- lenders may be willing to lend in these areas only at lower loan-to-value ratios;
- long-standing practices of redlining persist on an informal and unspoken basis;
- federal regulatory rules may effectively depress property values.

MARKETING, BRANCHES AND PERSONAL RELATIONS

> "Marketing? Are you kidding? Waiting for the bank to call is like waiting for the Maytag man."
>
> --- Small Business Manufacturer

Marketing, or rather the lack of it, emerged as a significant concern among almost all borrowers, prospective borrowers, City staff and community-based assistance organizations. Lenders frequently acknowledged that they made no particular effort to market their loan products, and no lender interviewed reported affirmative marketing programs or techniques designed to sell loans to minority or non-profit borrowers.

Branch managers and loan officers typically do not have credit approval authority. They can only receive applications, process them and forward them to centralized underwriting offices at regional locations in a few parts of the State. Because branch managers in large banks statewide systems must meet overall profit goals, they typically sell banking services and loan products which they are most familiar with, most comfortable with, or which provide them the easiest and quickest commission.

In this fashion, large banks may subtly undermine any marketing effort for loan products needed by low income and minority neighborhoods, such as the affordable housing, small business, minority and non-profit enterprise loans discussed in this study. In such a system, it would

take a directive from upper management to initiate and organize a system-wide effort to affirmatively market loan products needed in low income and minority communities.

Non-profit and some small business people representatives particularly felt a need for education about bank lending practices. Thus, for bank marketing efforts to be effective with non-profits and small businesses, they must also include a measure of technical assistance and orientation to the world of finance in general.

Another chief concern mentioned by numerous respondents was the branch closings which have occurred in recent years in East Oakland. Both Wells Fargo and Bank of America have closed branches on East 14th Street. Several respondents representing community-based organizations and neighborhood merchant associations complained bitterly about the closing of these branches, and the burden it places on small businesses and residents who remain in those neighborhoods. Other respondents noted that not a single bank branch exists in all of West Oakland.

In the absence of established personal relationships with community residents, small businesses, minority businesses, non-profit community-based organizations and affordable housing buyers and developers are treated by standard underwriting rules. There is no bank advocate who

has known the individual or organization for five to ten years to plead their case before a loan committee. Frequently, the result is the denial of credit.

Prospective users of small business or affordable housing credit in Oakland are deeply dissatisfied and frequently bitter about the relative unimportance they believe lenders have assigned to their concerns. They take as evidence branch closings in their neighborhoods. They point to the proliferation of high cost check cashing and lending services that have replaced conventional lenders in East Oakland, and to the utter absence of conventional lenders in West Oakland. They remark with resentment the lack of marketing efforts designed to solicit their business and meet their needs. Others feel relegated by lenders to unimportant, second rate status. Non-profits especially, and many small businesses, feel a need for technical assistance and information about how to work more effectively with the lending community.

Yet lenders feel they do serve the community well. If their institution doesn't serve a particular market niche, they assume another lender does. They acknowledge that their branch personnel have become a sales force, and are often not skilled underwriters, or trained to assist small businesses, homebuyers and non-profits with their credit needs. But they do not feel it is their responsibility to do so.

RECOMMENDATIONS

COMMUNITY CREDIT NEEDS ASSESSMENT
CITY OF OAKLAND

This study identifies a wide range of unmet credit needs for affordable housing, small business, minority and non-profit enterprise. Disturbingly, the study also found widespread concern about the effects of racist practices and prejudice on investment and credit availability in Oakland. The underlying causes of disinvestment in Oakland's businesses and neighborhoods are rooted in longstanding institutional practices, concerns among investors about Oakland's "image," racial prejudice, inadequate and inexperienced management expertise among small businesses and non-profit organizations. The ultimate resolution of the City's credit and investment needs lies in collaborative, concerted action among a number of parties.

These participants should include lenders, other corporations, especially insurance companies, secondary mortgage market institutions, Chambers of Commerce, neighborhood merchant associations, non-profit and community-based organizations, foundations, and other philanthropic institutions.

However, there is much that the City can do on its own to help ensure that the community credit needs identified in this study are met. The recommendations below summarize these actions which the City can initiate in four categories:

- Citywide policies and actions, requiring Mayoral leadership;
- Small business, minority and non-profit enterprise actions, requiring leadership from the City's Office of Economic Development and Employment (OEDE);
- Affordable housing actions, requiring leadership from the City's Office of Community Development (OCD);
- Foreign investment actions, requiring Mayoral leadership.

A. Citywide Policies and Actions

The following recommendations are made as prospective actions for the Mayor, City Council, City Manager, City Treasurer and joint efforts between OEDE and OCD.

- Establish the Oakland Community Reinvestment Task Force. This Task Force should be representative of banks and thrifts, other specialized lenders important to meeting community credit needs, small businesses, minority enterprises, and non-profit organizations and community development corporations, housing development realtors, as well as appropriate city officials. The Task Force should refine the identification and quantification of community credit needs described in this study. It should seek collaboration among the representatives to design and recruit from area lenders collaborative commitments to fully meet Oakland's credit needs in both the areas of affordable housing and small business developments.

- Adopt a linked deposit ordinance. Such an ordinance will condition the deposit of City funds with only those lenders who have proven themselves exceptionally responsive to the City's community credit needs as identified in this report, and as further specified by deliberations of the Oakland Community Reinvestment Task Force.

- Conduct an annual lender performance evaluation. Publish the ratings of all lenders active in Oakland according to their responsiveness to affordable housing, small business, minority and non-profit enterprise credit needs. Such an evaluation would make use of residential loan disclosure data available from the Home Mortgage Disclosure Act reports of federally regulated institutions, and similar reports required from State regulated lending institutions. The annual lender performance evaluation may also be linked to the establishment of a City commercial loan disclosure ordinance, or to voluntary reports by lenders of their small business lending record. These evaluations should be published in major area print and broadcast media.

- Adopt a Mayor's annual Award for Excellence in Community Lending, to be awarded to a selected institution(s) making an extraordinary commitment to Oakland's credit needs.

- Publicly announce the willingness of the City to protest merger, acquisition, change of charter or other challengeable activities under the Community Reinvestment Act of any lender who demonstrates consistent disregard for serving the credit needs of Oakland.

- Continue and expand current joint efforts among the Mayor, City Council, civic, community and business leaders to improve the

image of Oakland. These efforts may usefully focus on the rapid increase in property values, new downtown investment, the assets of the Port, Airport, and rail facilities, as well as other resources intrinsic to Oakland.

- Announce an **Oakland: The Entrepreneurial City Investment Campaign** as a permanent public relations effort to recruit lender, corporate and foreign investment in Oakland.

- Convene a Citywide conference jointly sponsored by OCD and OEDE on real estate appraisals in Oakland. This conference should include top level representatives from real estate brokers, real estate appraisers, developers, lenders, FannieMae and non-profit housing development corporations. Its theme should be to critically review and recommend needed reforms in the practice of appraising Oakland real estate for loan security purposes.

- Inform federal financial regulatory agencies of identified credit needs in Oakland, and the City's agenda to have lenders better meet those needs. Regulatory agencies to be so informed should include both the San Francisco regional and Washington, D.C. offices of the Federal Reserve Bank of San Francisco (the Federal Reserve Board), the United States Office of the Comptroller of the Currency, the Federal Home Loan Bank Board and the Federal Deposit Insurance Corporation. Reports should also be sent to the Federal Savings and Loan Insurance Corporation. These reports should be sent over the Mayor's signature. These reports should be submitted to federal regulatory agencies with the instruction that the City considers these reports to be filed in the Community Reinvestment Act Public Comment File of each institution supervised by each regulatory agency which accepts deposits and lends in Oakland.

- Forward the results of the Community Credit Needs Study to the Chief Executive Officers of each lending institution which accepts deposits or lends in Oakland over the Mayor's signature, requesting that the report be placed in each institution's Community Reinvestment Act Public Comment File.

- Convene a Mayor's conference on racism and investment in Oakland.

- Propose an **Oakland Tribune** investigative series on racism and investment in Oakland. For example, the **Atlanta Journal and Constitution** and the **Detroit Free Press** have conducted investigative series on the same subject.

B. Small Business, Minority and Non-Profit Enterprise

- Adopt policy goals regarding the kind of income, employment and advancement opportunities which City assistance to small businesses should encourage. These goals should emphasize good jobs at good wages, tying City support to small business and economic development which demonstrably increases the quality and quantity of employment for Oakland's residents.

- Quantify, to the extent possible, community credit needs of small businesses, minority-owned enterprises, and non-profit organizations.

- Identify and pursue City, foundation, corporate, state and federal resources available to insure risk, leverage equity and credit investments in Oakland's small businesses, non-profits and minority enterprises.

- Determine the amount of City financial resources available to capitalize revolving loan funds, credit enhancement programs and other special lending programs of priority importance to the City and its small business and non-profit community.

- Investigate the applicability of a variety of innovative capital access programs to the credit needs of the City's small business, minority and non-profit community. These may include the development of assigned risk loan pools by a consortium of lenders, adaptation of successful capital access programs such as those established by the Michigan Strategic Fund: Business Industrial Development Corporation (BIDCO's), minority or targeted BIDCO programs, loan loss reserve funds and capital access programs.

- Improve and increase the delivery of City-sponsored technical assistance and training activities for small businesses, minority-owned businesses and non-profit community-based organizations.

- Solicit a network of legal, accounting and financial planning pro bono services available to selected small businesses, minority-owned businesses and community-based organizations.

- Sponsor lender/borrower workshops on financial planning, loan application and business planning.

- Pursue the development of a lender consortium for loan packaging and pre-screening of small business loan applications by selected small businesses, minority-owned businesses and community-based organizations.

- Propose to the Federal Reserve Bank of San Francisco and the San Francisco Office of the Comptroller of the Currency that each adopt a small business commercial loan version of the

Fed's California Community Reinvestment Corporation program. Such a program will provide shared risk lending to small businesses, minority-owned enterprises and non-profit organizations. The proposal should call for a program of sufficient size to meet identified small business, minority and non-profit enterprise credit needs statewide, and should seek to develop secondary markets to assure the size and liquidity requirements of the loan pool necessary to meet these statewide credit needs.

- Work with commercial banks to design loan programs which support the credit needs of Asian loan clubs and micro-enterprise, such as self employment strategies for Public Assistance recipients.

C. Affordable Housing

- Analyze the impact of FannieMae and other secondary mortgage market credit and appraisal standards and practices on single-family lending to low income and minority neighborhoods in Oakland. Pursue appropriate secondary mortgage market pilot projects to avoid the negative effects of standard secondary mortgage market practices.

- Prepare OCD Director testimony to the Chairman, Board and staff of the planning and development effort currently underway for the California Community Reinvestment Corporation, specifying affordable housing credit needs in Oakland, and proposing appropriately scaled responses by the proposed Corporation.

- Recruit a lender-backed loan pool for residential properties which receive low appraisals but have qualified, low to moderate income Oakland buyers ready to purchase them. This loan pool would cover the difference between conventional mortgages available and the market price of the unit. Qualifying properties would be priced no higher than 100% of the median sales price within Oakland's seven Community Development Districts, excluding the Rockridge neighborhood.

- Continue efforts to establish the Oakland Housing Partnership, and to solicit lender investors in the Partnership in 1989. Given the extension of the federal and state Low Income Housing Tax Credit program, continue the Oakland Housing Partnership effort each year.

- Via the Oakland Community Reinvestment Tax Force, develop lender commitments to annual affordable housing credit goals in the areas of single-family mortgage purchase loans, home improvement loans, rental rehabilitation loans, acquisition, refinancing and/or rehabilitation loans for rental projects at risk of losing federal subsidies, construction and permanent loans for affordable rental housing projects, and bridge loans for Oakland Housing Partnership Tax Credit projects.

- Request in writing that the Federal Reserve Bank of San Francisco, the U.S. Office of the Comptroller of the Currency, the Federal Home Loan Bank of San Francisco and the Federal Deposit Insurance Corporation investigate how lenders report home equity loans under the Home Mortgage Disclosure Act (HMDA). Request that these federaly regulatory agencies issue directives to their regulated institutions regarding appropriate and inappropriate reporting of home equity loans for HMDA purposes.

-

D. Foreign Investment

- Convene a Mayor's Task Force of the City Manager, the Port Director, the OEDE Director, OCD Director, City Council Representatives, City Treasurer, and others as needed to determine the existence of discriminatory investment practices of foreign investors and/or governments from Asia and Europe.

- Based on the findings of the Task Force recommended above, propose Mayoral diplomatic and trade activities to redress any discriminatory foreign investment practices which affect the availability of credit and investment in Oakland. All available channels should be used for this initiative, including diplomatic and trade-related efforts, the U.S. State Department, the City's Congressional Delegation and others as appropriate.

- Adopt a City Council proclamation decrying any practices by any investor nation or foreign company found to discriminate against investment in Oakland.

COMMUNITY CREDIT NEEDS ASSESSMENT
CITY OF OAKLAND, CALIFORNIA

I. INTRODUCTION

The provision of credit for commercial, small business, affordable housing and non-profit community-based enterprise is critical to the economic vitality of any city. Providing for these credit needs is also an affirmative obligation of federally regulated financial institutions, as stated in the Community Reinvestment Act. The provision of affordable and accessible commercial credit for small businesses is one of the most important factors in generating jobs and income for low and moderate income workers. The small business sector historically and consistently contributes a high percentage of job growth in any community. The availability of affordable and accessible construction financing and long-term financing for affordable housing is a necessary ingredient to the stabilization and revitalization of low income and minority neighborhoods. These are neighborhoods where lenders have been traditionally reluctant to make loans. The result is often longstanding patterns of disinvestment, neighborhood decline and neglect.

Lenders typically specialize in the types of loans they make available to prospective borrowers. Most commercial lending is limited to commercial banks. Specialists in commercial lending include business development corporations, business and industrial development corporations, and offices of special or guaranteed lending such as the Small Business

Administration (SBA), the Cal Regional Program, or commercial loan programs administered by the Office of Economic Development and Employment (OEDE) in the City of Oakland. Brokers of commercial credit include such organizations as certified development corporations and participating lenders in the Certified and Preferred Lender Programs of the SBA. The SBA also supports an active secondary market, which increases the volume of SBA loan activity. Savings and loan associations may on occasion extend commercial credit. The involvement of savings and loan associations in commercial credit was expected to increase in the wake of the 1982 deregulation of the financial industry. More recent problems with solvency questions of the Federal Savings and Loan Insurance Corporation (FSLIC) may result in renewed restrictions on thrift involvement in commercial lending.

Mortgage lending for affordable housing also takes several forms and involves a variety of institutional lenders. Loans are needed for single-family purchases, generally classified as 1-4 unit, owner-occupied properties. Home improvement loans for single-family dwellings are needed, particularly in neighborhoods with longstanding patterns of deferred maintenance and disinvestment. Construction financing, permanent financing and, more recently, intermediate term bridge financing are required loan products for the development, acquisition, preservation and rehabilitation of affordable rental housing.

Lenders include mortgage bankers, thrifts, commercial banks and mortgage brokers. Pension funds, insurance companies and credit unions may also

play a role in the direct provision of affordable housing credit, or in providing an accessible secondary mortgage market to acquire, securitize and/or sell multi-family or single-family mortgage loans. Government guarantee programs such as offered by the Federal Housing Administration (FHA) or the Veterans Administration (VA) are also important participants in the provision of accessible and affordable mortgage financing.

Tax-exempt bonds have played an important part in the last ten years in both single-family and multi-family housing finance, though the 1986 Tax Reform Act significantly scaled back allowable volume of tax-exempt bonds for housing and other private activity. Federally supported secondary mortgage markets such as those offered by the Federal National Mortgage Administration, the Government National Mortgage Association and the Federal Home Mortgage Assistance Corporation are also important partners in the mortgage finance enterprise.

Without the active participation of lenders originating loans for both small businesses and affordable housing, the large and diverse financial system outlined above cannot serve the needs of low income and minority communities or their residents.

Borrowers are as diverse as the lending communities which serve them. They include small businesses, non-profit organizations, community-based organizations, developers and contractors for both commercial and affordable housing development, home buyers and homeowners. Both non-profit

community enterprise and non-profit development of affordable housing have growing credit needs of central importance to cities and their neighborhoods.

In recognition of the importance of affordable and accessible credit to the City, Oakland has commissioned an assessment of community credit needs. This study has several purposes:

- identify credit problems and needs from the lender, broker and borrower perspectives;
- broadly estimate the size, or market, for several areas of credit need:
    - low and moderate income housing new construction, rehabilitation and acquisition;
    - single-family home purchase for first time moderate income home buyers in low and moderate income and minority neighborhoods;
    - rehabilitation loans to low and moderate income homeowners in low and moderate income and minority neighborhoods;

- small business commercial credit needs, particularly among minority and women-owned enterprises and businesses located in or serving low income and minority neighborhoods, or employing significant numbers of low and moderate income and minority residents of Oakland and non-profit community-based enterprises;

- identify lender credit practices, if any, which help perpetuate the unmet credit needs of small businesses, community-based organizations, affordable housing developers, first-time home buyers and homeowners in low and moderate income and minority neighborhoods;

- suggest credit practices, loan products, underwriting policies, and public/private credit programs which may help resolve unmet credit needs in Oakland.

The study has several limitations as well. In the areas of commercial credit, the study will not review the finance needs of medium and large sized corporations. In the area of affordable housing, this study is not concerned with the credit needs of market rate housing development, or home purchase and home improvement loans for higher priced dwellings in the more affluent neighborhoods of the City.

There are other kinds of community credit needs which this study will further exclude from its inquiry. For example, important questions occur in examining the availability of basic banking services and affordable credit for consumers in the form of personal loans for a variety of purposes: college loans, car loans, credit cards and others. In addition, issues concerning the availability of credit arise around the opening and closing of financial institution branches in low income and minority neighborhoods. The limited scope of this study precludes an examination of these important credit issues. In no way does the exclusion of these credit concerns from the current study suggest that they are unimportant to the low and moderate income and minority neighborhoods and residents of the City. Rather, the limited resources available for the inquiry have been focused on the commercial and affordable housing credit needs described above.

In addition to limiting the inquiry to particular types of credit, the study will also limit the types of lenders which it reviews. These will include thrifts, commercial banks, credit unions and some classes of loan brokers such as business development corporations and mortgage brokers. The study will not review the lending and investment practices of insurance companies, pension funds, and institutional secondary markets such as FNMA and GNMA. Once again, the exclusion of these lenders from the scope of inquiry does not suggest a diminished importance of the role they play in assuring the provision of accessible and affordable credit to Oakland. Rather, the limited resources available to this study require limiting the scope to originators of credit in Oakland.

The results of the community credit needs assessment will be used to help shape two policy proposals for the City of Oakland:

1. A city linked deposit ordinance. This ordinance will propose linking the deposit and investment of City funds to the affirmative and responsive efforts taken by individual lenders to meet community credit needs.

2. An Oakland Community Reinvestment Task Force. The Task Force will provide a permanent forum comprised of lenders, community representatives and City officials, where community credit needs may be reviewed and credit programs involving lenders and appropriate government entities are established.

Through the course of the needs assessment, additional remedies suggested themselves to persistent credit needs in Oakland. Suggestions are also made for these remedies, to the extent they can be directly achieved or influenced by City action.

The results of the community credit needs assessment, as well as policy proposals for the establishment of an Oakland linked deposit ordinance and the Oakland Community Reinvestment Task Force, will be presented to the Oakland City Council for their review and action.

II. METHODOLOGY

As noted in the Introduction, this study of community credit needs in Oakland focuses on two chief issues: (1) affordable housing and (2) small business/commercial credit. The affordable housing component of the study was sponsored and supervised by the City's Office of Community Development (OCD), Ms. Antoinette Hewlett, Director. Mr. Roy Schweyer, Housing Manager, represented OCD as the supervisor of the study. The small business section of the report was overseen by the City's Office of Economic Development and Employment (OEDE), Mr. George Williams, Director. Ms. Diane Banks, Manager of Business Development, represented OEDE in supervising the small business section of the report.

This study relied chiefly upon direct interviews with wide-ranging representatives of borrowers, lenders and intermediaries in both residential and commercial lending. Nearly 100 interviews were conducted. A list of interviewees is appended to this report.

Interviewees in the small business field included representatives of lenders, loan brokers, City OEDE staff, non-profits and community-based organizations, manufacturing and industrial small businesses, commercial real estate developers and contractors, professional and nonprofessional service small businesses, retail and office small businesses, and representatives of the State Office of Small Business, as well as the San Francisco Office of the Small Business Administration. Interviewees represen-

tative of OCD concerns were drawn from lenders, loan brokers, City OCD staff, non-profits and community-based organizations, real estate developers and contractors, real estate brokers, commercial and residential real estate appraisers.

Interviewees representative of the groups listed above were identified by City staff, federal regulatory agency staff at the Federal Reserve Bank of San Franciso and the Federal Home Loan Bank of San Francisco, consultants to the City and others.

Interviews ranged from one-half hour to two hours in length. They were structured around a questionnaire which covered the following issues:

- Types of loan products offered or needed. In the area of residential lending, this included single-family mortgage purchase loans, home improvement loans, multi-family new construction, permanent and bridge loans. In the area of small business finance, loan products included working capital loans, lines of credit, both secured and unsecured, commercial real estate acquisition and construction loans, equipment purchase loans, and loans with both shorter and longer maturities.

- Underwriting terms and conditions. These included such issues as security and collateral requirements, credit history requirements, debt-to-income and loan-to-value ratios, pre-leasing

requirements, rent history requirements, track record and income requirements, location of real property, appraisal methods and uses of appraisals.

- Marketing efforts. Questions were asked regarding both formal and informal marketing of loan products and services engaged in by lenders for their residential and small business/commercial loan products.

- Participation with government programs. In the area of residential lending, these include FHA, VA, tax-exempt bond issues, the California Housing Finance Agency, federal and state Low Income Housing Tax Credits. In the area of small business lending, these include Small Business Administration (SBA) loan and guarantee programs, Cal Regional loan guarantee program, City of Oakland Revolving Loan Fund, HUD 108 loan program.

- Respondents were free to raise other issues of concern to them outside this broad outline for the interview questionnaire. Many did so.

In addition to the interview data, several other data sources were employed for this study. A 1979 study entitled An Income and Capital Flow Study of East Oakland prepared by Community Economics was reviewed.

A report titled Community Investment Opportunities for San Jose, California, prepared by the Community Affairs Department of the Federal Reserve Bank of San Francisco, was reviewed for its basic approach to studying community credit needs. Housing need data included in Oakland's Housing Assistance Plan submitted to the U.S. Department of Housing and Urban Development were used to estimate the volume of credit needs in the area of affordable housing.

No similar database was found to exist describing small business, minority enterprise or non-profit commercial credit volume in Oakland. Each lender interviewee was asked whether and how they define and measure the small business credit market in Oakland. No lender was found to conduct even a crude measurement of small business credit needs in the Northern California Region, let alone in the City of Oakland. Bank industry trade publications such as Robert Morris and Associates, Dunn and Bradstreet, the Bank Administrative Institute and others are used by lenders. However these studies only establish operating norms for standard industry codes. They contain no area market surveys.

III. RACISM AND IMAGE IN OAKLAND: EFFECTS ON INVESTMENT AND CREDIT AVAILABILITY

By far the single most pervasive, and most troubling, reasons respondents gave for the lack of adequate investment capital in Oakland was racism. Widely repeated statements alleged that lending practices resulted in a racist effect: the discriminatory denial of credit to minorities in comparison to its availability for non-minorities. Respondents particularly felt this was true for lending to small businesses and minority enterprises. Many others also commented that the same phenomenon applied to credit available for affordable housing in the City. Respondents from both diverse ethnic backgrounds and widely different sectors in small business, housing development, non-profit service organizations, appraisals, brokerage--even lenders themselves--asserted that racial prejudice and racist practice severely restrict access to capital for minority businesses and in the City's low income neighborhoods. Intertwined with the widespread assertion that racial prejudice in lending and appraisal practices undermines the availability of credit in Oakland was the statement that the City suffers from a serious problem of public image. Respondents from small businesses, community-based organizations and lending institutions in particular expressed concern about Oakland's image as a city ridden with drugs and crime. Secondary image problems concerned the adequacy of the City's school system.

These remarks were repeated so often, in some cases stated with such fervor, that they emerged as a chief finding of this study for several

reasons: first, because they were so widespread, and voiced directly or indirectly by so many different interviewees. Second, in their prevalence among interviewees' remarks, they point to a widespread belief--or fact--that racial prejudice impedes business and affordable housing development in minority neighborhoods. Third, the deeply held convictions with which some respondents discussed their feelings creates an imperative that this troubling issue be dealt with openly, affirmatively and in the most constructive of terms.

These samples of respondent remarks cited below give voice to this concern:

> "The practice of racism is forced by economics. The area between 60th and 180th Avenues is generally redlined by San Francisco lenders. Values aren't going up. If a small business package comes into a lender with collateral from out there, the lender will go 60% instead of 80% of value. (Savings Bank X) very clearly states verbally their redlining practices. In many lenders, it's blatant internally. You'll never get anyone to admit it though. It's subtle."
>
> --- Credit Officer, SBA Specialty Lender
>
> "Oakland is a good area to work in, it's a diverse area. Big banks are more race conscious than small banks. Big banks are pretty careful about who they serve and how they report it. But small banks may deliberately try to avoid serving certain areas. I wouldn't want to name individual banks. But they're all over."
>
> --- Staff, Office of Small Business, State Department of Commerce

"Sure I recall redlining. Redlining is still taking place. I'm sure it is. Folks in East Oakland, if they want to buy a property have more difficulty in borrowing then they do in Piedmont. There was a time when as a black person you couldn't be taken seriously by the lender. That's not so true today, but those with less have a more difficult time achieving economic equality. How do you reverse that historical condition?"

--- Credit Officer, Cal Regional Program

"The delinquent rates in Oakland run higher. Maybe I'm talking a little out of school. They're higher today in Oakland. I'd say it runs 3% to 4%. Unemployment is higher in Oakland than in other areas. Oakland's a vast area though. What I'm speaking about is the low income area. That's where high delinquency rates occur. Divorce seems to be very prominent there. The borrower qualifies as a two income family, and then ends up with one income."

--- Senior Credit Officer, Mortgage Lender

"The FHA appraiser said 'any white person caught in that area would be dead in the morning.'"

--- Appraiser

"Different appraisers look at properties in West Oakland differently. The white women appraisers are the worst. They're truly scared of the neighborhood. Older appraisers are better. They've been around and have seen it all. The prejudice and mindset about Oakland's image is astonishing. It's almost impossible to reverse, or get around. We did research on our neighborhood in West Oakland about crime statistics. We went to the Oakland Police Department and actually plotted crimes that have occurred over a several year period on a map of the neighborhood. Only three crimes were reported over, I don't know, maybe five years in that particular area. We showed these numbers to the appraisers. We show them to lenders. It didn't make any difference to them. They just said, well that's a really bad area. The home isn't worth much. We won't lend there."

--- West Oakland Homeowner and Housing Attorney

"When a Black entrepreneur walks into a bank, there's an atmosphere, a feeling you get. In the South at least

there's a prevailing honesty. They tell you, "I don't like you and I want you to know I don't like you." It's more subtle here. "I will not let you gain in the economic arena." For example, they'll hire a Black person or a minority public affairs vice president. They're the buffer. That's as far as you get. Their mission is to keep me from getting to the decision maker, but they don't understand that. I have known of no Black entrepreneur with more than $10 million involved in land development projects. We can only get involved in small projects. I'm trying to say what most people are afraid to say.

Underwriting is a subtle way of handling the underlying racial concern. In most cases, it's going to depend on the CEO. If a bank CEO has concern at the top, a concern with meaning and meat on it, the lower level staff will jump. But if there's no such leadership, that little credit agent that's trying to get a promotion, they're going to go by the book."

--- President, Non-Profit Business Service Organization

"Our office is at 28th and Cypress. At the office in front of ours, some guy came in and laid the people out. "I've killed you white boys before, and I don't mind doing it again." He robbed them. There are gun fights around the corner. The guards harass the tenants at the Acorn project. It's not a place you'd want to invest a lot. We did a job on East 14th Street and 20th Avenue a couple of years ago. It really made a difference in the neighborhood. But you can't put a project in next to a large housing project without cleaning it up. If you're living next to a jungle, chances are some wild animal will come out and get you. It may be considered redlining, but I think it's wise on their (the lenders') part."

--- Contractor/Developer

"Some lenders just don't want to lend in Oakland. Lenders just say it. "We're in Concord, we have boundaries that end here." Especially in East Oakland. They're afraid of it. They don't understand it. They don't understand the people."

--- Affordable Housing Developer

> "People have told me no for a loan because it's in Oakland. If this deal were in suburbia we'd do it all day long. All types of institutions say this. I wouldn't want to name institutions."
>
> --- Commercial Developer
>
> "We're finding systematic redlining in Oakland. Particularly in the multi-family area, but also some in the single-family area."
>
> --- Mortgage Broker and Real Estate Broker
>
> "We probably did have institutional racism several decades ago. We hope we've inculcated in our people that we're part of the community, and that that can no longer continue."
>
> --- Executive Vice President, Large Commercial Bank
>
> "There's conscious and subconscious redlining. Banks share information. Lenders talk to other lenders. Some of this may be a result of the City's image problems. It's not for reason of falling property values. Lenders apply a double standard to the City. They have to play ball with Bramalea, where some middle market player may not attract credit without a triple A rating and a Fortune 1000 status. The lenders say why should we invest in Oakland? Drugs, schools, decay of the infrastructure, the ever so painfully slow renaissance process of the City. Lenders will tell you "we're out of the market on this product" when we ask for it in Oakland. But go to Concord and they're in the market with it in a big way there."
>
> --- Executive Director, Non-Profit Business Service Organization

Another disturbing element of interviewees' comments on racism pertain to the Japanese. Several respondents noted that Japanese investors, corporations and managers carry racist attitudes toward blacks in particular.

> "I do believe that the Japanese philosophy is racist. Japan Town in San Francisco is an example. When a Black walks into the duty free store there, an announcement

> comes over the loud speaker "number four," meaning that a Black person has entered the store and the store employees are to keep an eye on him. Statements that come out of Japan directly, like from Nakasone, who publicly said that Blacks and Hispanics are pulling down the intellectual and learning curves of Americans. A Japanese manufacturer was selling racist pickaninny dolls, until the Congressional Black Caucus called a press conference to protest and stop the manufacturer. They had no idea how offensive this could be to Black Americans. The Japanese attitude is not only one against Blacks, but against all non-Japanese, including whites. I feel Japan is still at war.
>
> This is not a problem with Japanese Americans. I'm very comfortable that Japanese Americans are not of this opinion. It comes out of Japan directly...We all know that Japanese managers call the shots at Japanese American banks."
>
> --- Credit Officer, Small Business Lender

Another respondent, an accomplished developer with personal ties to Japan, remarked on the Japanese reluctance to invest in a City with a large Black population.

> "We're constantly faced with business problems regarding the image of Oakland, anything from trying to recruit employees to get developers to work here. (A person who I know directly) is CEO of a major construction company in Japan. This is a huge company. Whenever I talk to them about Oakland, they say no. It's a minority, racially motivated thing. It's the minority population. They're afraid of it. Blacks in particular. For some reason Japan is not bothered by Hispanics. For example they've invested huge amounts of money in Mexico and South America. This particular construction company is active in San Jose, a city with a large Hispanic population, but not a large Black population. The same company has built a huge high rise in Los Angeles. They're active at the John Wayne Airport in the Irvine Ranch Area in Southern California. But they won't build in Oakland."
>
> --- Developer

Almost equally prevalent in respondents' comments were concerns about the image of Oakland, and its dampening effect on the availability of investment capital.

> "It's obvious, the problems that exist, whether minority or white. In poverty there's going to be a high level of crime. That creates risks. It's a perpetual mechanism that takes place. Look at the drug traffic. Everybody knows about it, the high level of drugs, robberies, violence. I can't blame institutions from shying away from that."
>
> --- Credit Office, Small Business Lender
>
> "Lenders will say that's a tough area. A lot of businesses have problems there. There are no local branches there. No local manager who you have access to, who's available....for example, sales will have to increase for us to make a loan there. But sales can't be increased because of the security problems and vandalism problems. Walk along East 14th Street between East 82nd and 108th Avenues. Security and crime is a concern. It's a question between fact and perception. Huge security problems eat into profits. Lenders assume it's a problem even if it's not in fact."
>
> --- OEDE Staff
>
> "Crime is the real issue. Look at Safeway. They've pulled out of all the low income neighborhoods in the City. Can you blame them? How is crime dealt with in the neighborhoods? It's known by everyone. You can't do crime here, you can do it over there. The prosecution is different. As a result, downtown investment may occur at the expense of investment in the neighborhoods."
>
> --- Small Businessman, Professional Service

At least one community leader even expressed concern about the number of low income people in Oakland.

> "We've got to talk about income. The population (in rental housing) is most prone to deviant behavior. Behavior attracts or repels business. Rental housing is a blight on the community. In Elmhurst, we're trying to develop a program of residential stabalization. Trying to start this program by focusing on rental property. Primarily, it's the physical and social conditions that negatively impact the community. We need no more rental housing. Not one more unit. We have too many poor people in Oakland. We've got to reduce the number of poor people in Oakland. People occupy property like outlaws. We've built up in Oakland some of the lowest standards of conduct that you can find anywhere."
>
> --- Director, Non-Profit Community Organization

In the aggregate, these statements indicate a widespread belief that race and the image of Oakland determine to a large degree the availability of investment capital for small businesses and affordable housing. When asked about these statements, those lenders interviewed typically noted that their loan application and underwritingprocess was bias-free. Several lenders noted that they had no way of knowing the race of a loan applicant. Other lenders suggested that no special treatment should be given any group, minority or otherwise, when determining creditworthiness. They suggested to relax credit underwriting standards is only to invite failure. Several minority business persons agreed with this statement.

> "We don't look at SBA programs as a minority-oriented agency. I don't care what color people are. Historically, you had huge loses by targeting minorities. Financing may not be the solution. Lending to people who can't afford debt is a disservice to the borrower. If minorities feel they don't get the credit they deserve, look at their financials. That's what we do."
>
> --- Credit Officer, SBA Specialty Lender

> "We believe we're colored blind. If the guy's good, he's going to get a loan. In people's mind, the institutional factor of racism still exists. But how do you combat that? It takes years and years to change people's concepts."
>
> --- Credit Officer, SBA Specialty Lender
>
> "We can't tell minorities on the applications coming in from the branches. We don't ask the question of ethnicity....the way we're set up totally mitigates against racism. It's not on the application. And since we have only two regional locations in the State to process loans, we have no time to look up zip codes or anything else. Racism is totally irrelevant."
>
> --- Senior Credit Officer, Business Banking Division, Large Commercial Bank

Based on the comments of numerous respondents noted above, racism is clearly not irrelevant to the availability of credit in Oakland. Rather than respond with rhetoric or hyperbole, however, it is important for the City, its residents, business people, and the lenders that serve them to address this issue honestly and constructively. To do so will require a willingness to acknowledge that the problem exists. It will require an effort to understand the complex, underlying reasons for these sentiments. It will require an analysis of how lending practices, city political leadership, prevailing economic and social conditions and other factors combine to deny or retard the availability of investment capital for Oakland. The following sections of this report attempt to describe and explain the underlying reasons for inequality of access to credit for small businesses, minority entrepreneurs, non-profit organizations, developers and buyers of affordable housing. Recommendations are made for actions to be taken by the City which hold promise for redressing these inequities.

Clearly, only a concerted undertaking by all parties involved can help to reverse the effects of decades of economic inequality of opportunity for minority residents living in Oakland.

IV. SMALL BUSINESS, MINORITY AND NON-PROFIT ENTERPRISE CREDIT NEEDS

A. Defining the Small Business Market

1. Size of the market

Oakland's small business market is diverse and difficult to define in quantitative terms. In the course of our interviews, not a single study of the Oakland small business market was uncovered. Community Economics conducted in 1979 a study of income and capital flow in East Oakland. Neither lenders, federal regulators, the City, the State, community organizations or Chambers of Commerce have estimated the size of the small business market in Oakland by any quantitative measure: neither by number of businesses, sales volume, income or credit needs.

> "We don't conduct market research. We use informal mother-in-law research to describe the market. We rely upon what our employees tell us is needed."
>
> --- Senior Lending Executive from one of the four largest California commercial banks.
>
> "We have no detailed statistics of the small business market in any community in California."
>
> --- Staff, Office of Small Business, California State Department of Commerce.

A regional vice president at the Bank of America indicated that the Bank conducts no market studies of small business credit needs. However, this bank officer indicated that when Bank of America plans its marketing efforts for small business loans, they target companies with at least

$5 million in gross annual sales. They assume that a company with $5 million in annual sales has an average annual credit need for working capital of $250,000. This officer indicated that this was only a rough rule of thumb. For example, when asked if a company with $10 million in sales would therefore have an annual average credit need of $500,000, she indicated that may or may not be the case.

The California State Board of Equalization maintains data on the volume of taxable sales in Oakland. However, this sales volume would apply only to taxable, retail sales. It would not include professional and non-professional services, manufacturing, wholesale or other non-retail sale transactions. The Department of Finance of the City of Oakland is responsible for collecting the Oakland business tax, which is calculated as a percentage of total business income for businesses located in Oakland. OEDE and the Department of Finance are currently working to estimate business income volume in the City. At this writing, this information is not available.

No single definition of small business exists. Small business may be defined by annual sales, net income and/or number of employees. Most lenders define small business markets by sales, net income, or often by the size of loan requests. SBA definitions generally predominate, certainly with respect to participation in SBA loan guarantee programs. SBA generally targets companies with annual sales of less than $10 million.

The California Regional Loan Guarantee Program operated by the State Office of Small Business targets companies with less than $20 million in gross sales. Typical Cal Regional business clients come from the lower end of that spectrum:

> "any where from the $100,000 to $1 million range in gross sales,"
>
> --- (Vice President of Cal Regional).

Both the absence of quantitative small business market data and any uniform definition of "small businesses" frustrate efforts to measure the size of Oakland's small business sector, and the size of its credit needs. The following discussions provide more qualitative descriptions of the City's small business sector.

2. Types of Businesses

This study found several types of small businesses with serious unmet credit needs. They include businesses with less than several million dollars in annual gross sales who seek loans of less than $50,000 to $100,000, start-ups, businesses with limited management capability, and those with limited equity, particularly real estate equity.

The Oakland small business sector is diverse. It comprises retail, light and heavy manufacturing, professional and non-professional service, real estate developer and wholesale enterprises. It became clear from our

inquiry that there also exist a large number of non-profit organizations in the City with credit needs very similar to those of for-profit small businesses.

3. Minority-Owned Enterprise

There exist in Oakland a long-standing, diverse and growing number of minority-owned enterprises. Historically, these businesses have been concentrated among blacks in East and West Oakland. Black owned enterprises in Oakland tend to be small. Typically they are sole proprietorships.

> "There's millions of Black, Hispanic, and other minority dollars in (Oakland) banks, and if all Black businesses were put together, their assets wouldn't equal those of the lowest company among the Fortune 500...there are no large successful Black enterprises in Oakland."
>
> --- President, Oakland Black Chamber of Commerce
>
> "Underemployment and unemployment in Oakland is a direct result of not enough Black businesses in Oakland. For example, when Caterpillar Tractor in San Leandro closed down, there were 75 to 80 Black machinists out of work. It would have been an ideal thing to set up a machine shop. But we don't have a Black owned business, or Black controlled capital, capable of doing that."
>
> --- Director, Non-Profit Development Corporation

The Northern California Office of the Small Business Administration has identified 15 8(a) minority-owned businesses in Oakland. These firms have been admitted to the SBA's minority, small business and capital

ownership development program. This program allows minority firms to become more competitive. The SBA bids to other government agencies for contracts on behalf of 8(a) firms, and subcontracts with those firms once the contracts are secured. For example, the SBA can buy major equipment or secure advance payments for 8(a) firms working under government subcontracts through the SBA. The SBA notes that the number of 8(a) firms in Oakland is relatively high for a City of this size. The Golden State Business League, a non-profit minority business service organization, has processed applications for 8(a) certification in the past under contract to the SBA. At this writing, it has no such contract.

The emergence of established Hispanic neighborhoods in the City (e.g., the Fruitvale District) have led to increased business ventures owned by Hispanics. However one lender active in SBA programs notes that he has seen no Hispanic applications for SBA loans from Oakland. This same lender formally worked for a number of years in the heavily Hispanic Southern California community of El Monte, and noted that there were large numbers of Hispanic business borrowers from that City. The President of the Fruitvale Merchants Association noted that a number of Hispanic owned small businesses (e.g., restaurants, retail establishments) could have benefited from loan capital.

Chinatown has historically been a center for Chinese merchants, but recently is expanding to accommodate an influx of business from the San

Francisco Chinatown due to overcrowding and expense there. Additionally, there is a rapid increase in Southeast Asian and other Asian immigrants from Vietnam, Cambodia, Thailand and Korea. These new Asian immigrants have significant deposit assets in Oakland's Chinatown:

> "There are a lot of institutions in Chinatown. I estimated by calling managers at 8 financial institutions in Chinatown--Bank of Canton, Bank of America, Golden Coin, Metropolitan, United, Gateway Savings, Continental, Bank of the Orient--a minimum of $50 million to $250 million in deposits. The need for social service agencies is important as well. They're always in a precarious situation. They have a hard time getting credit."
>
> --- Developer in Chinatown

The new Asian immigrants and refugees to Oakland have no established credit history in the United States. Some have accomplished business and professional skills which enable them to start new, small businesses. These are largely in the retail, commercial and professional trades. Other recent immigrants have little business or professional experience. While some of the Asian small business community's credit needs are served by Asian owned institutions with branches in Chinatown, the new immigrants have turned to self-financed "loan clubs" to meet their start-up and other credit needs.

> "Vietnamese, Chinese and Cambodian immigrants have definitely increased. For business loans in the immigrant and refugee community, ten people will put in $1,000, and one person gets money for that month, then the next month the next person gets the money. Interest rates vary. I've heard of exorbitant rates, as high as 15% to 18%. However these loans are granted to persons with no credit history in the country. Many Asian cultures are used to dealing in cash. It takes a lot of hand holding which

> I'm not sure lenders are willing to do. That's why they have formed these financing clubs. They don't know how to produce the bookkeeping systems required by lenders."
>
> --- Director, Chinatown based non-profit development corporation
>
> "The loan clubs are very important to new immigrants who have no other sources of credit. The only other sources available are family or friends."
>
> --- Developer in Chinatown

It is important to recognize that the "Asian community" is not monolithic in Oakland or other cities throughout California. Cultural distinction, differences in language, education and skill levels, wealth, and orientation to borrowing are widespread among Chinese, Japanese, Korean, Southeast Asian and other recent and more established Asian immigrant and refugee communities and residents in Oakland and throughout California. Refugees are particularly disadvantaged by their very low income and lack of family or community contacts and resources. These refugees have virtually no access to capital, even to the loan clubs.

4. Non-Profit Enterprise

A large sector of Oakland's small business market remains unrecognized for its significant size and credit needs: non-profit organizations, community-based organizations, churches, service organizations of a wide variety. These organizations control tens of millions of dollars, if not hundreds of millions of dollars, in annual deposits. They have long standing track records with government agency contract, foundation,

United Way, and congregational support. They are treated largely as an invisible market. Lenders do not recognize, understand or seek to capture the real and ongoing credit needs of this large sector for lines of credit, working capital, equipment purchases, real estate acquisition, development and rehabilitation. No census of non-profit organizations in Oakland was discovered by this study. The number of such groups probably exceeds several hundred. They range in size from annual budgets in excess of $10 million to several hundred thousand dollars. The credit needs of very large, traditional non-profits such as hospitals and universities were not surveyed in the study.

> "Whenever confronted with a non-profit, lenders are ill equipped to assess its financial strength. Non-profits and their financial statements are not well understood by lenders. All arguments come down to the absence of collateral among non-profits. Foreclosing on a church gives a black eye to the bank in the community, regardless of the underlying collateral. In evaluating repayment, bankers have a difficult time assessing income streams. They'll say you've got this grant now, but will you have it next year? They don't know government and foundation programs. Foundation and government agencies are skittish to talk with lenders about the creditworthiness of non-profits. One of the biggest needs is in the area of lines of credit to cover delays in cost reimbursement from government contracts. These include private industry councils, departments of health, employment and training agencies and others who complain of this unmet need. There is also an ignorance among non-profits about the banking system and its specialty lenders.
>
> Banks should do the education of non-profits. They're doing a bad job marketing their loans to non-profits. They're not thinking institutionally. Most non-profits aren't just street corner operations. They're now twenty years old, affiliated with the United Way. Banks don't use the United Way network to understand the credit

needs of non-profits. But we're not at the point where we can call each other up and say, okay, how much credit do we need this year."

--- Consultant for non-profit enterprise

"Non-profits fall outside the realm of conventional banking for a host of reasons. Banking is personal. We don't know those individuals. We're located in the Wells Fargo Building. Our President has another firm that's always done business with Wells Fargo. It took about three years for us to get any kind of business relationship with them. We do have a line of credit, but it's not adequate. Our President had to personally guarantee the line of credit with his own personal collateral."

--- Business development specialist, non-profit business service organization

"They don't understand the (non-profit healthcare) business. Few bank officers know about the diversity of non-profit organizations and their income streams. We run a $7 million a year agency. They don't know what they're dealing with. The theory is the more information you look at, the more you know, but it's not necessarily so.

They may understand the Red Cross, because that may be the kind of health organization where they're on the board. But they don't understand non-profit service organizations working in poor neighborhoods. They can't assess risks, success, or project how you're going to be a success. They don't want to be in poor neighborhoods in the first place. You're not supposed to be in business to break even. You're supposed to be in business to increase profit. Forever.

They don't care about poor neighborhoods as much as they care about how to make a profit. They don't know how to solve the hard problems of poor neighborhoods. They'd have to be motivated and committed to do it."

--- Director, non-profit, community-based health clinic

With rare exception, SBA loan products are not available to non-profits.

Non-profit organizations which establish for-profit subsidiaries may

qualify those subsidiaries for SBA loans. Thus the SBA specialty lenders are of little help to them. Loan executives from large California banks interviewed for this study indicated that they "treat non-profits no differently than for-profits" in underwriting credit requests. However, some executives acknowledge that their underwriting criteria and marketing practices effectively minimize if not exclude entirely non-profits from securing credit for business operations.

5. Women Owned Enterprise

One respondent referred to the special credit needs of women owned small businesses, but generally this group did not emerge as one with particular, identifiable credit needs in Oakland. Other cities have identified self-employment or "micro-enterprise" opportunities as effective for a selected sample of women, including women who traditionally have been on public assistance. Minneapolis has pioneered such a program, which in turn has been promoted by the Corporation for Enterprise Development in Washington. Typically, the credit needs for such self-employment or micro-enterprise activities are small indeed. They may involve a requirement for a working capital loan of as little as $10,000.

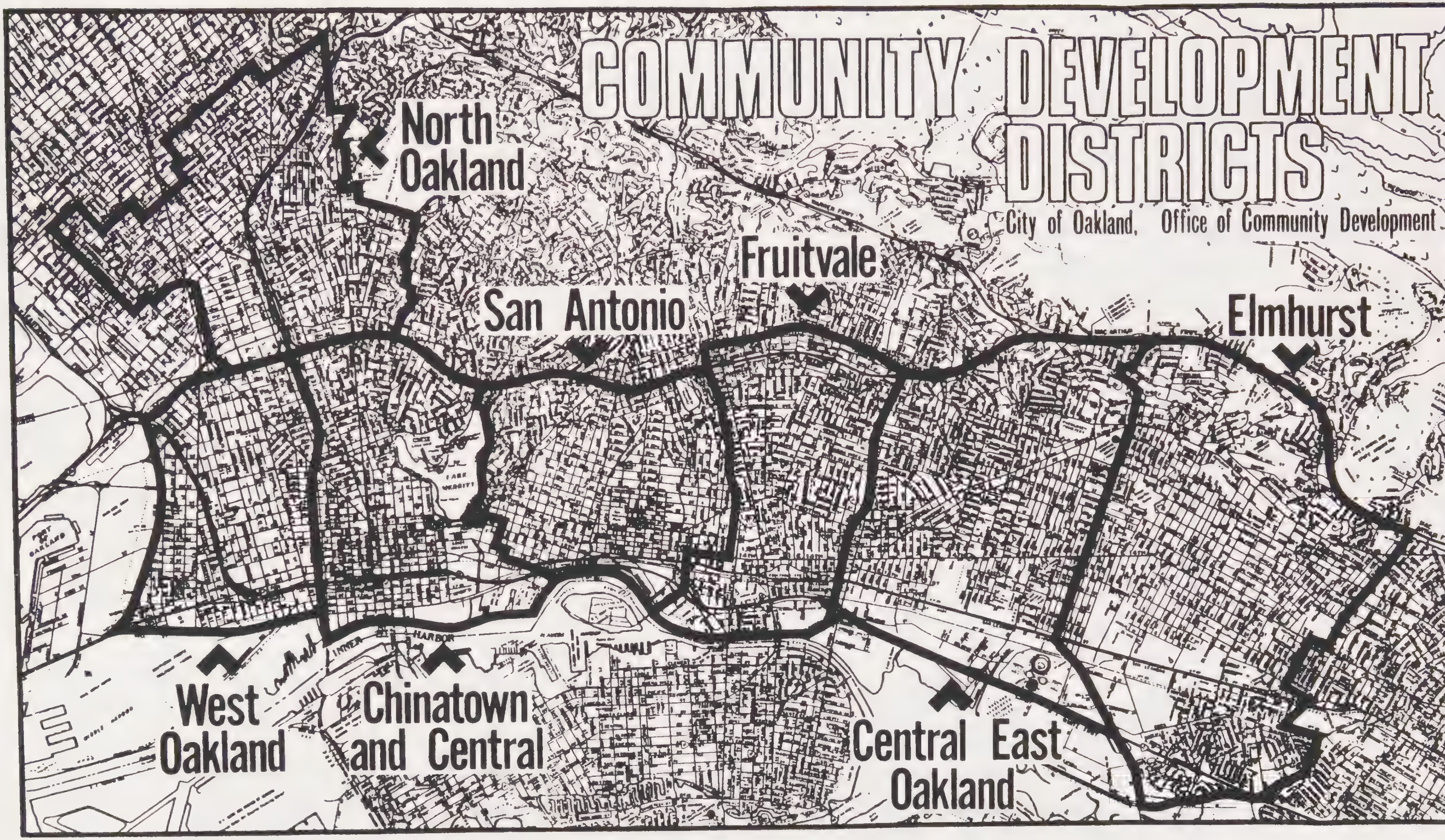
> "I feel there is a lot of discrimination against women. I work with a lot of professionals who need $10,000 to get a boost to get going. There's a gap there for working capital, not having anything to leverage. It's important for these women to have ongoing education, to attend seminars, workshops, pay for memberships. The membership in the Oakland Chamber of Commerce is $250.00

> or $350.00. They need to advertise. They need to attend networking opportunities. They don't go to lenders. They feel its impossible. They put off buying a new car. They borrow from friends. It might mean no vacation. It might mean staying a renter. They tell you "can't you borrow from your mother?" It's so small an amount that no one wants to deal with it. But it's too large to put on an installment plan.
>
> You have to go into debt to get credit. You have to have an understanding of how to prosper through debt. A number of us have a problem with that, particularly women. We're told to pay our bills. We're not taught how to understand the risk, or how to understand the positive side of debt. I can't recall that I was ever told that, ever."
>
> --- Business consultant, Editor of the Laurel/Dimond Reporter

6. Geographic Definitions of Small Business Need in Oakland

The market area for small businesses in Oakland with particularly acute credit needs may also may be defined geographically. The City has defined seven Community Development Districts. These are illustrated in the map on the following page. The seven CD Districts all lie below the MacArthur Freeway, encompassing most of East and West Oakland, parts of the downtown, the Fruitvale District, and other predominately low income and minority neighborhoods within the City.

The 1979 Community Economics study of income and capital flow in East Oakland found disturbing trends there among the small business commercial sector. Both the number of retail establishments and employment in the retail trade sector had fallen in the period 1972-1978. Retail sales



COMMUNITY DEVELOPMENT DISTRICTS
City of Oakland, Office of Community Development
North Oakland
Fruitvale
San Antonio
Elmhurst
West Oakland
Chinatown and Central
Central East Oakland

growth had not kept pace with inflation for most commercial businesses in the City. The study cites the general decline of commercial strips in East Oakland: East 14th Street, Foothill Boulevard, MacArthur Boulevard, and other neighborhood commercial streets.

The Community Economics study found that East Oakland's commercial sector generally reflects the age of the community. Three quarters of the businesses on East Oakland's commercial streets had been established for more than 10 years in 1978, with one-third in existence for more than 30 years. More than half of East Oakland's businesses were owned by single individuals. Twenty-eight percent of the remainder were corporations and 16% were partnerships. Sixty percent of the businesses interviewed by Community Economics reported less than 5 employees. Ninety percent reported less than 20 employees. Nearly 60% of East Oakland businesses rented their premises in 1978. Widespread absentee ownership of commercial businesses continues to predominate in the CD Districts and the City's low income and minority neighborhoods. Presumbably, these absentee owners are less inclined to incur the expense of rehabilitating commercial properties located in neighborhoods where they do not reside. Tables I and II detail local and absentee ownership of commercial business in East Oakland in 1978. Presumably, these absentee owners are less inclined to incur the expense of rehabilitating commercial properties located in neighborhoods where they do not reside.

TABLE I.

LOCAL AND ABSENTEE OWNERSHIP OF
COMMERCIAL BUSINESSES IN EAST OAKLAND,
1978

Type of Business	Residence of Business Owner		
	East Oakland/ Not East Oakland	Other Oakland	Outside Oakland
Locally-Based Businesses:			
Total East Oakland	35%/65%	33%	32%
Locally-Based Business & Subsidiaries of Larger Firms:			
Total East Oakland	25%/75%	25%	50%

SOURCE: Compiled by Community Economics from business records.

TABLE II.

LOCAL AND ABSENTEE OWNERSHIP OF COMMERCIAL PROPERTIES IN EAST OAKLAND, 1978

Location	Residence of Property Owner: East Oakland/ Not East Oakland	Other Oakland	Outside Oakland
East 14th St. San Antonio	39%/61%	39%	22%
East 14th St. Fruitvale	21%/79%	16%	63%
East 14th St. Central E. Oakland	38%/62%	19%	44%
East 14th St. Elmhurst	25%/75%	55%	20%
East 14th St. Total	30%/70%	33%	37%
East 18th & Park San Antonio	20%/80%	30%	50%
Fruitvale & Foothill Fruitvale	22%/78%	11%	67%
Dimond Fruitvale	18%/82%	12%	70%
Foothill Blvd. Central E. Oakland	20%/80%	33%	47%
MacArthur Blvd. Elmhurst	20%/80%	27%	53%
Other Commercial Areas Total	20%/80%	23%	57%
Eastmont Mall Central E. Oakland	0%/100%	0%	100%
Foothill Square Elmhurst	0%/100%	0%	100%
Commercial Properties Total East Oakland	25%/75%	27%	48%

SOURCE: Complied by Community Economics from property tax assessors records.

The comments of many respondents regarding Chinatown and the Asian community in Oakland suggest that there exist significant small business credit needs concentrated in the Chinatown and downtown areas of the City as well.

B. Loan Products

The fundamental credit needs of small businesses may be defined by the types of loans, or loan products, they require for daily operation and economic growth. The study found no surprises here. Loan products in demand by small businesses and generally offered by the lenders include:

- lines of credit;
- working capital loans;
- equipment purchase loans;
- expansion financing;
- real estate acquisition, rehabilitation and construction loans for physical plants, and a variety of income property: residential, office, commercial, mixed-use.

While these loan products are generally available from lenders, others needed by the small business community are not. These gaps in available loan products are briefly reviewed below.

Small Loans

Loans of less than $100,000, particularly those less than $50,000, are rarely available to small businesses. The average SBA 7(a) loan written in Oakland in fiscal year 1987 was $237,000. Most SBA lenders will not lend below $250,000. Few lend below $100,000. Only one SBA lender, Tracy Savings in Concord, was identified as willing to lend below $50,000. The SBA is reportedly preparing regulations which will pay lenders an additional point on each loan they write below $50,000. However, the policy is not in place at this writing.

A senior credit officer in the business banking division of Wells Fargo indicated, however, that of a $300 million 1987 statewide volume of business loans up to a $500,000 maximum loan amount, the average size loan was $50,000. California First Bank reports a $400 million portfolio of loans with outstanding balances of less than $250,000, and approximately $70 million in loans with balances of less than $10,000. It should be noted that these figures for California First Bank represent outstanding balances, not loan origination amounts. Still, the figures constitute a major statewide portfolio of small business loans. Neither

Wells Fargo nor California First could report the volume of those loans originated to Oakland businesses. Nor was either bank at all active in SBA or Cal Regional loan guarantee programs. Security Pacific, the second largest bank in the State, made 3 SBA loans during the last year, according to a study done by an SBA Certified Development Corporation in San Diego.

An experienced small business development consultant questioned the assertion, made by large commercial banks, that their portfolios of loans with outstanding balances of less than $250,000 represent needed small business lending.

> "Term is the issue here. Most of these accounts are secured by certificates of deposit. You only get a loan as long as the CD is in place, and then only for a very short term, something like 90 to 360 days. This isn't development credit. This is not credit extension. The banks are lending you your cash back. It's a personal, unsecured loan or credit line, not a business loan. It's not financing inventories. It's not financing equipment. The big banks went out of the business of extending small business credit 15 years ago."
>
> --- Small Business Development Consultant

Further inquiry seems warranted to determine whether small loans are indeed available, and, if so, why small businesses, State and City staff and business consultants all claim without exception that small loans remain an unmet credit commercial need.

Start-up Loans

Loans for start-up ventures are generally not available. Many commercial lenders reported they do not make them at all. Of those who do, some combination of strict underwriting conditions, SBA guarantees, personal familiarity with and confidence in the borrower is required. The SBA requires 33% owner equity in any new venture. Lenders typically require collateralization of the full loan amount with hard assets such as real estate. Secondary collateral is frequently required as well. The borrower's financial projections must comply with standards established by such bank credit reports as those available from Robert Morris and Associates. Further, the borrower must be deeply experienced in the particular business he or she proposes to start.

Self-Employment/Micro-Enterprise

As noted above, very small loans in the neighborhood of $10,000 or less may prove to be a valuable small business product as well as an important self-employment resource for sole proprietors. Lenders are unquestionably disinterested in this type of commercial loan. One lender virtually scoffed at the idea by rhetorically asking "what are they going to do with it? Open a candy store?" In fact, the micro-enterprise self-

employment program in Minneapolis has seen public assistance recipients successfully start flower stalls, concession stands and other very small businesses with less start-up capital than $10,000.

Mixed-Use Commercial Development Loans

While not commonly desired by small commercial developers, commercial strip revitalization, particularly along sections of East 14th Street, Foothill Boulevard and MacArthur Boulevard, appropriately call for mixed-use development, combining residential, office or retail space. Loan needs for this type of development may typically include rehabilitation and new construction as well. No lender was found or reported willing to make such loans.

Pricing and Terms

The key issue consistently mentioned with respect to needed loan products was <u>access</u> to the types of loans described above, not their costs. However, several respondents did note that commercial loans are invariably priced at adjustable rates, one to three points above prime, with no cap on how high the rate may go. These respondents expressed concern that the potential risk of a sharp increase in interest rates prove sufficient

deterrent for them from securing credit. Several non-profit organizations noted this concern. However, one large commercial lender noted that price was a general concern for smaller businesses:

> "Price is usually the last item determined. Price is not important in the area of corporate finance where we are dealing with large, sophisticated organizations. But it is more of a concern for a smaller company. Their cash flow is more variable, more vulnerable to economic cycles, and the businesses are generally less sophisticated. They frequently do not understand that the cost of capital is part of the cost of doing business."
>
> --- Senior lending executive from one of California's four largest commercial banks

Price can be a real concern when a small business feels shut out from conventional commercial finance. In such cases, small businesses are forced to turn to high risk lenders charging much higher rates than those available from conventional lenders. An SBA specialty lender comments:

> "We've been here for five years, but I still get calls every day that say who are you? Where are you? I didn't know you exist. I talked to one guy the other day who was going to pay $16,000 in fees on a $100,000 loan at 16%. He'll pay prime plus two and three quarters plus one and one half points to me for an SBA loan. He's damn lucky to have found me before he closed that loan. The costs would have killed him."
>
> --- Credit officer, SBA Specialty Lender

In addition to price concerns, a number of small businesses express concern about the relatively short term offered for amortizing conventional small business finance. Typically, lines of credit are amortized

over a one year repayment schedule. Working capital and equipment purchase loans typically are written for three years. Rarely are they written for longer than five years. Many real estate acquisition development loans are written for five year terms. The longest conventional terms available for commercial real estate finance seem to run five to seven years. The chief advantage offered by SBA loan products, particularly their real estate loans (502, 503, 504) is the much longer term offered: 15 to 25 years. One lender noted, however, that business people are accustomed to thinking in terms of short term debt. For that reason, they, according to this lender, care less about price and more about the availability of the loan itself. They typically expect to pay a loan off within a three to five year period, and certainly do not expect hold it for 15 or 20 years. Nevertheless, the relatively short terms of the small business loans combined with their relatively higher interest rates (compared to residential loans) make small business credit an expensive item for any enterprise.

Concerns with SBA Loan Programs

Considerable disagreement and confusion exists among respondents regarding the value and requirements of SBA loan programs. Prospective borrowers frequently complained of too much red tape and long delays in processing time. Under the preferred lender program, loans are supposed

to be approved with a one day turnaround. One credit officer at an SBA specialty bank indicated that while Preferred Lender Program loans should be processed in 24 hours, they take a week to process on average. The same lender noted that loans coming in under the Certified Lender Program should be done in a week, but take 3-4 weeks to process through the SBA. The SBA itself contests those assertions, claiming that PLP loans take three days on average while CLP loans take a week to ten days to process.

> "The delay in SBA loan processing has two parts. First is the processing time within the banks themselves, and the second is the processing time after the banks have submitted to us. One of the biggest problems we have is banks give us incomplete loan packages. We do get a backlog. Our loan volume has soared to the number one loan volume in the country. You'll get an answer on a PLP loan in one day. For CLP you're supposed to get it in three days, but you'll get it in 10 days. Charges that it takes one week to three weeks for these programs are not accurate.
>
> We're training three new loan officers now. It takes awhile to get them up to speed. Now the criticism of delays may be well founded for that reason. But in the last three years we've gone from doing about $120 million a year in lending to $220 million a year. At the same time our staff has dropped from 75 to 60, and could go lower. Another problem is there is a lot of turnover of loan officers among the lenders too. People don't stay with the SBA programs within their banks."
>
> --- Northern California District Director, Small Business Administration

Substantial confusion and disagreement also exist regarding the collateral requirements of SBA loan programs.

"The collateral requirements people talk about are not ours (i.e., the SBA's). They're the lenders'. We don't turn down the loans if their not collateralized. We don't look at it purely on that basis. The SBA SOP (Standard Operating Procedures) indicate that collateral is desirable but not a mandatory feature for loans we guarantee. What the SBA cares most about is repayment ability. We use ratios on past sales and projections in given industries. We look carefully at the lender's analysis of cash flow."

--- Northern California District Director, Small Business Administration

"The normal businessman won't sit still for SBA requirements. SBA takes everything in the form of collateral. They put a lien on your home, on your personal property, on your inventory. I don't think small businesses are getting their needs met because of the real estate equity requirements for collateral. If you're not big enough, or if you're a new business, you have to have 100% of the amount borrowed in real estate equity. For an established business, the amount may be down to 50% or 60%, but it's never below that. The SBA is hard. You have to really want and need it. It's a loan source of last resort. Adjusting the collateral requirements would put out more money. But most of the loans you cut your rules on, you lose."

--- Credit officer, SBA specialty lender

"In start-ups you should have collateral. The SBA looks to collateralize the loan. Most start-ups don't own the business property they operate on, but they do have equity in their home. A lien on inventory? You're almost kidding yourself. Tell the judge. He may die laughing in his chair. An accounts receivable lien is a soft collateral item. It must be real property in California to be adequate collateral."

--- Credit Officer, Specialty SBA lender

"The SBA ties up everything in collateral. They can stifle the growth of a business just as it's poised to expand."

--- Director, Non-profit Business Service Corporation

Confusion also exists as to whether or not the SBA will fund start-ups. The SBA indicates that it does, requiring 33% in owner-equity for a start-up. However, one senior lending executive at a large California commercial bank stated flatly that the SBA does not guarantee loans for start-up enterprises.

One small business person explained why they did not pursue an SBA loan:

> "We got information about the SBA. We considered it strongly when we were weaker. I looked at government funded real estate loans for our business. We could satisfy our needs at the time through Sanwa Bank. The government regulations were too complicated. The fees seemed kind of heavier than I would have expected. Three or four years ago we had no savings. It seemed like a route of last resort."
>
> --- Oakland Manufacturer

There is agreement that one of the chief advantages of the SBA program is the longer term (15 to 25 years) offered in its real estate loan programs. These terms are simply not available with conventional financing. There also exists broad agreement that the SBA secondary market is absolutely essential to whatever success lenders, especially small banks, have in originating SBA loans in any kind of meaningful volume. As a credit officer at a very small commercial bank put it,

> "the SBA secondary market enables me to operate like the Bank of America."

There is also broad agreement that without exception the four largest banks in California (Bank of America, Security Pacific, First Interstate, Wells Fargo) are largely inactive in all SBA programs.

> "The big banks have made a conscious decision that they're no longer in the small business market. They're closing branches. They're consolidating. They're pulling lending authority out of the branch manager's office. He may have had $25,000 or $50,000 in loan authority. It's true for all the big banks. Now he's selling services. First Interstate, Security Pacific, Wells Fargo, Bank of America. When Sanwa bought Lloyds of California, a lot of commercial loan officers found themselves on the street. It was partly that Sanwa brought in their own people, and partly that they cut back on their small business commercial lending. In Sacramento, Lloyds had been very active in small business commercial lending. After the Sanwa acquisition, that's all dried up."
>
> --- Staff person, Office of Small Business, California Department of Commerce
>
> "The larger banks are not interested in loans of less than $100,000. Absolutely they should be interested. When you reach a certain level of borrowing, a $400,000 loan request, they visit you. They (large banks) do it through price fixing, that is by beating the competition with a slightly better price. Everybody is competing for the middle market company in the $5 million to $100 million annual sales range looking to borrow $2 million to $5 million."
>
> --- Credit Officer, SBA Specialty Lender

Disagreement also exists regarding the utility of SBA Certified Development Corporations (CDC's). CDC's are employed as loan packagers and

intermediaries for SBA real estate loan products. They charge a packaging fee and a monthly servicing fee. One SBA lender, specializing in 7(a) loans, flatly refuses to work with CDC's indicating,

> "we like to know the borrower. We don't like to work with intermediaries. Why pay somebody a fee to do what we do anyway?"

In any event, CDC's have not been active or effective in Oakland. Of the 53 SBA loans originated in Oakland in fiscal year 1987, not one was written by a CDC, according to the San Francisco SBA office. Disagreement also seems to exist regarding the need for and effectiveness of loan packaging intermediaries. Some respondents view the Oakland Business Development Corporation (OBDC) favorably, indicating their loan assistance and technical assistance was helpful, if not very important to their enterprise. Other respondents have been highly critical of OBDC's effectiveness and, in some instances, the competence of its loan officers.

However, there remains no disagreement among respondents that a central need for both lenders and prospective borrowers is greater education about SBA loan products and the particular credit needs of small businesses in the City.

> "I found no problem getting SBA loans during the 1979 to 1984 period. There was no problem getting good projects funded by the banks. They were eager to do so. But often the biggest task was educating the bank. They didn't know how SBA worked. At the Spanish Speaking

> Unity Council we had to put almost as much focus on educating the bank as we did on putting together an outstanding loan package."
>
> --- Business Development Specialist, Non-Profit Development Corporation
>
> "The answer to lenders providing us with incomplete loan applications is more training for the lenders. We probably do more training for lenders, both those beginning and advanced with SBA products, then any other SBA office. We send out a monthly newsletter, one of the few in the country. We hold meetings once or twice a year of the top 25 SBA lenders to informally discuss how we can improve the program."
>
> --- Northern California Coordinator, Small Business Administration

Cal Regional Loans

The Cal Regional Loan Guarantee Program is designed for those small businesses which cannot avail themselves of conventional lending. The program targets its modest resources on companies with gross sales in the $100,000 to $1 million range, acknowledging that many businesses have a need for borrowing even if they are very small. Cal Regional is not a direct lender, but rather guarantees loans originated by banks. As one staff person put it, "no bank will say that won't lend because you're too small. They'll say the risk is too high. We say give us the opportunity to second guess the bank's decision."

Cal Regional will guarantee between 80% to 90% of the loan amount. No real estate development loan guarantees are offered, distinguishing it from the 502, 503, 504 programs of the SBA. The program gives technical

assistance to borrowers to ready them for loan packaging by an SBA Certified Development Corporation. As noted, this has not worked in Oakland. The maximum loan amount guaranteed by Cal Regional is $350,000. There is no minimum loan amount. The State operates six corporations statewide: two in Los Angeles, one in Salinas, one in Sacramento, one in Fresno, and one in Oakland. The Oakland office has a $5 million share of the $32 million total statewide allocation for the program. Again, unlike SBA, Cal Regional has no secondary market for loans originated under the program. No lender interviewed indicated their participation in the Cal Regional program.

Consequences

As can be seen from the foregoing discussion, many small businesses suffer from the relative unavailability of several types of loan products. They also suffer from a lack of access to capital resulting from how lenders define small business markets for themselves. For example, businesses seeking smaller loans or start-up loans, non-profits and self-employed individuals frequently must turn to other, more costly sources of credit. By paying exorbitant rates for credit when absolutely necessary, or simply going without credit even though it is needed, the growth of many small businesses is stifled. So called high risk lenders include asset-based lenders and factoring companies.

> "Factoring companies, such as Instant Credit, will take all of your invoices. They will advance you the invoice amount, but charge a percentage of the total invoice, for example, 5% off the invoice. This is a very short term, very expensive loan. In addition they'll charge an application fee.
>
> Asset-based lenders will lend against equity in your property. They'll charge 5 to 10 points plus 4% to 5% above conventional lender loan rate. Examples of such companies are Topa Thrift, Foothill Capital, Fireside Thrift, ITT Commercial Credit. They charge you through the nose, while tying up all of your assets. This puts the small business person in a revolving door of dilemma, never having enough credit, cash or equity to adequately operate his business."
> --- Executive Director, Non-Profit Business Development and Service Corporation
>
> "For the small merchant already here, it's almost impossible to get a loan. The banks redline our community. I own six buildings, four free and clear on this block alone. There are a bunch of little retailers, 142 merchants in our association. Loans on their properties are practically impossible to get, unless you go to a hard money lender. For example, you can borrow $100,000 if you want to pay 14% to 16% interest plus 4 to 5 points. All they care about is the equity in the property. They don't care about credit. We've lost 26 merchants alone in our neighborhood in 1987."
>
> --- President, Elmhurst Merchants Association

Another problem for small businesses in Oakland's Community Development Districts is the predominance of absentee ownership. As renters, small businesses are effectively unable to borrow funds to rehabilitate their stores. More often than not, absentee owners are unwilling to incur the expense of rehabilitation for commercial properties they own in the tradi-

tionally disinvested neighborhoods of Oakland. The result is these properties continue to decline, generally depressing property values throughout the neighborhood. A vicious cycle of disinvestment is perpetuated.

C. Underwriting

Underwriting is an art, not a science. Subjective judgments are made by lenders to determine whether they will lend to a particular borrower. These judgments are colored by:

- the credit officer's personal experience;
- the degree of personal interaction between a bank credit officer and the borrower;
- the pre-existing business relationship, if any, between lender and borrower;
- how the borrower presents himself or herself;
- the type of loan requested, and other factors.

But underwriting judgments are also made according to prevailing standards that have evolved over decades of bank practice. These standards are often formalized in lending manuals. The degree of discretion an individual credit officer has in applying these standards is determined by the size, complexity and corporate culture of the bank, and by government lending program requirements (or perceived requirements) where appropriate. Often, particularly at large institutions, the bank officer a borrower personally deals with has no underwriting authority. Rather, the officer is viewed by his or her bank as a salesperson, not a loan officer with credit approval authority.

The effect of such standardized underwriting practices, or of such a hierarchical bank structure, is frequently the denial of credit to an entire class of prospective borrowers. Often these borrowers are small businesses, minority enterprises and non-profit organizations. By not conforming to standardized underwriting guidelines, many creditworthy businesses frequently find needed credit unavailable to them. This section briefly describes such practices and problems that may result from them for small business.

1. Standard Small Business Underwriting Practice

Standard bank underwriting practices for small business commercial lending were described by each of the lenders interviewed. A summary

from three of these interviews serves well to illustrate basic measures employed by commercial lenders to gauge the creditworthiness of small business borrowers. Two interviewees are senior business banking credit executives at two of California's four largest commercial banks (more than $40 billion in assets). The third is a senior credit officer at a mid-size California commercial bank (approximately $6 billion in assets).

Lender A:

> "For underwriting, we require both a primary and secondary source of repayment. The management must be strong, with expertise in marketing their product or service, as well as an understanding of who the competition is, be it local or international. We also look at the depth of the management. Is it a one man show? We look for broader management. And for the growth of management as the company grows. We require a solid track record with at least three years experience in that business, supported by three years of tax returns and profit and loss balance sheets.
>
> These financial reports must show consistent profit margin, and at a minimum show no losses. We look at the business's trade credit. Are their accounts payable paid within 60 days? Do they have a good credit history? We will also look for personal guarantees. A secondary guarantee may be a pledge of personal assets or business assets.
>
> We have no minimum size loan that we will look at. We have no minimum net worth requirement. The business has to be established at least two years, preferably three years. We may make an exception for a doctor with one good year of practice. That would probably be adequate.
>
> We generally require a 35% to 40% pre-leasing condition before the start of construction on our construction and take-out loans. For loans to buy income property, the appraisal must be based on the income method. We may average the three appraisal methods of income, cost

replacement and comparative cost. If done right, they should come out fairly similar. Our bank personnel review the findings of outside appraisers.

We treat non-profits no differently than for-profits.

In extending an unsecured line of credit, we rely upon the company maintaining a business position to service its loan. There are assets which could be pledged to repay the loan. There may be a negative pledge requirement. That is in the event of a technical default by late payment, the Bank can renegotiate its loan on a shorter maturity.

We have no absolute ratio we apply across the board for debt-to-worth ratios. Different industries do well with different leverage ratios. We use a comparable industry analysis such as Robert Morris & Associates for companies in the peer industry group. If there is a deviation from the average that's a red flag for us."

Lender B:

"We collateralize our lines of credit and other business loans by accounts receivable. We look for a worth-to-debt ratio of at least 25%. For equipment loans, we will use the equipment as collateral, gauge the term of the loan appropriately to the life of the equipment. For example a five year loan on a computer would not be attractive to us, but such a loan on a printing press would be.

The number one issue for us is the professionalism of the owners and operators of the business, the strength of its management. A borrower could have gold plated credit, but our decision to lend is subject to our assessment of the maturity and management capacity of the borrower. It's important to us that we know our borrower. He must have a minimum track record of 18 to 24 months. It's very tough for us to do start-ups.

We believe as a commercial lender that the business itself has to have viability as a business. We're not asset based lenders. We don't use real estate as collateral. Especially in the area of real estate, where it's legally an ambiguous process. Our spreads are relatively thin. We're not venture capital lenders. We cannot afford costly management time to foreclose on real property."

The notable aspect of this lender's underwriting practice is that real estate is not used as collateral. This was unique among the lenders interviewed.

Lender C:

> "In our division we make loans up to $250,000 unsecured, with another $250,000 of credit available secured by real estate, either owner-occupied residential or business property. We conduct no SBA lending in this division of the Bank. We make loans to established businesses with rare exceptions. In the case of start-ups, the loans must be fully collateralized, the person must be taking over a business, or must have been in that line of business for some time. Our secured lines of credit and secured term loans are supported by real estate.
>
> We don't want to see a lot of fluctuation in the use of the line of credit. If the business is engaging in more than 65% usage of the line of credit, that's a concern to us. That's permanent working capital, not a line of credit. Term loans may be amortized up to 5 years. Properly underwritten real estate commercial loans may be amortized over a 20 to 25 year period, with the loans due in seven years.
>
> We underwrite by both personal and business credit decisions. On the personal side, we look to an outside net worth of at least $100,000, and a personal outside net worth capable of covering loans outstanding by at least a one to one ratio. We prefer to see lendable equity in real estate as collateral available at about 75% of the amount borrowed. We have no minimum loan size. Personal liquid assets should be at least 15% of the loan. Personal debt-to-income should be no more than 50%, and preferably less.
>
> Personal discretionary income available within at most one year should be available to retire our loan within 48 months. There must be no derogatory credit, that is no bankruptcies, repossessions, no charge offs, no collec-

tions, liens or judgments over $1,500. There must be no more than two 60 day delinquencies or one 90 day delinquency on the credit history.

We avoid lending to the more risky businesses. I assess risks according to my history in the lending business. I've been with the Bank for 12 years. I don't use Robert Morris & Associates. For small businesses, that's not accurate. There's no verification of the data reported from small businesses themselves to RMA. Real estate developers, financiers and contractors are notoriously risky, and more vulnerable to economic down turns. Somewhat less risky than them are restaurants, auto dealers, and financial consultants. Following that I would rank printers, graphic designers and truckers. All others would have a less degree of risk. Professional doctors and lawyers are seen as a solid investment.

On the business end of our underwriting, we look to the number of years established. That's very important to us. We also look to the number of years the borrower has been an owner or operator of the business. We apply the same liquidity and tangible net worth standards as we do on personal assets. The business must be leveraged at less than three to one. The sale trend must be at least flat or rising over the last two to three years. Net profits and depreciation minus long term debt should be 1.2 to 1.5 the amount we lend. We look to the ability of the business to retire the debt. We apply the same credit history standards as we do to the personal side of the ledger sheet.

We'll make commercial loans to non-profits, but often we don't have a guarantee. We try to get a guarantee on all loans we make as a matter of policy. For non-profits the management of expenses and assets is often a problem. On the guarantee side, we may require a personal guarantee. Maybe there's a hitter on the board of the non-profit. We'll lend if they're a high deposit customer, that is yielding at least $2,500 annually in net earnings to the Bank off their deposits (that is at least $62,500 in average daily deposit presuming a bank return rate of 4%). If we're earning that kind of return off their deposits, and they score high on other criteria, we may lend to them.

We have CRA (Community Reinvestment Act) programs. The minority business program and the community redevelopment program. Functionally, there's no difference between the

> minority business and loans to other for-profits. For a loan to qualify as a CRA loan, it has to benefit the community at large, for example, a drug treatment center, or a church with a big community outreach program. The only difference in the loan product is the term may be extended from five to seven years. Nothing in credit underwriting will distinguish CRA loans from our standard business loans. The pricing is identical as well."

2. Problems Created for Small Businesses by Standard Underwriting Practices

Some respondents noted that the kinds of standard underwriting practices described above are generally fair and appropriate, even if they sometimes prove a hardship for certain types of businesses.

> "Lender underwriting standards seem prudent and on the whole generally fair. The special loan programs that downtown investors get with massive city subsidies, for example the Hyatt, don't appear to be available to small businesses. Large scale industries seem to be able to borrow at concessionary rates....Underwriting is often helpful to the borrower. Remember, banks make money by lending."
>
> --- Business Development Specialist, Non-Profit Business Service Corporation
>
> "Let's assume we agitate for changing the underwriting criterion. Then our foreclosure rate would go up like nobody's business....I don't believe conventional lenders would agree to waive the track record requirement for Black developers. If a lender has to administer small minority developers, their costs would exceed the interest they could charge. If you don't have a track record and a balance sheet, you don't borrow money. I'm not sure I disagree with (this underwriting criteria), but I know one thing, it's hell."
>
> --- Executive Director, Non-Profit Development Corporation
>
> "Borrowers get in trouble through lines of credit. It restricts their cash flow because it's short term financ-

> ing, and relatively expensive. Lending to people who can't afford debt is a disservice to the borrower."
>
> --- Credit Officer, SBA Specialty Lender

As these observers note, calls to relax underwriting standards, particularly for minority-owned enterprises, ultimately prove to be a disservice to both the individual borrower and the minority business community in general. Nevertheless, it remains evident that such practices prove troublesome for some sectors of the small business community. Some of these issues are discussed below.

Equity

The unintended consequence of requiring equity from borrowers is that lending to minorities and non-profit organizations is retarded. Minority-owned enterprises are historically smaller, poorer, and endowed with less assets and equity than their majority counterparts. Non-profits are required by the Internal Revenue Service not to earn a profit, not to accumulate the ownership of assets. Furthermore, lenders may not be able to foreclose on assets owned by such non-profits as churches or retirement housing projects. To foreclose on such highly visible community assets would create a furor for any lender. Lender interviewees remarked that they would rather not make the loan in the first place than put themselves at risk of such public criticism.

Collateral

Heavy collateral requirements for small business operators tie up all personal and business equity. This leaves little room for flexibility in their financial planning and assignment of assets to both their business and personal financial needs. In this light, it is notable that First Interstate, one of California's four largest commercial banks, does not rely upon real estate as collateral, but rather assigns accounts receivable to that role.

Appraisals

Because real estate collateral plays such a central role in the underwriting of small business credit, appraising the value of real estate emerged as a critical problem for small businesses. Regardless of which appraisal method is used--income, replacement, comparable costs--, appraisers undervalue real estate in Oakland's seven Community Development Districts. One respondent in particular noted the particular problems of appraisals imposed by federal regulation R(41)(c), which requires lenders to steeply discount the value they assign to real estate used as loan collateral. The appraisers interviewed for this study indicated that the lenders either dictate the questions asked, and

or simply use the appraisals to support a predetermined lending decision. The lenders interviewed for the study, on the other hand, indicated that they were entirely "appraisal driven."

Regardless of where the truth may lie in the practice of real estate appraisal and its use by lenders, it is clear that appraisals of real estate used for collateral for Oakland small businesses has a severe dampening effect on the availability of credit to minority-owned businesses, businesses located in low income neighborhoods, and owners of small businesses who themselves reside in low income or minority neighborhoods. The problems associated with appraisal are discussed in further detail in the affordable housing section of this study.

V. AFFORDABLE HOUSING CREDIT NEEDS

A. Defining and Estimating Affordable Housing Credit Needs in Oakland

Unlike the small business market, relatively reliable data exist to define the size and nature of affordable housing credit need in Oakland. These data generally derive from the U.S. Census, and are revised every three years in the City's Housing Assistance Plan as reported to the U.S. Department of Housing and Urban Development. The housing market is generally divided into two parts: (1) owner occupied, single-family housing of one to four units; and (2) rental housing. Special needs groups are identified in the Housing Assistance Plan (HAP). These special needs groups are generally renters or are homeless. Special needs groups include single parents, large families, disabled persons, emergency and transitional housing needs for the homeless, the elderly, and others. The scope of this study prevents a detailed examination of affordable housing credit needs for each of these groups. However, estimates may be generated for the broad categories of:

- mortgages for single-family homes in Oakland's seven Community Development Districts (CD Districts);

- rehabilitation loans for lower income occupied and vacant single-family units;

- rehabilitation loans for lower income occupied and vacant rental housing units;

- loans for new rental housing construction affordable to lower income households.

Credit needs for each of these market areas are briefly described below.

1. Single Family Mortgage Purchase in Oakland's Community Development Districts

There are an estimated 60,805 owner occupied single-family housing units in Oakland. No reliable data were found available on the number of annual single-family home sales in Oakland. Neither were such data available for the number of sales within the City's seven CD Districts. The following sources were contacted unsuccessfully for accurate sales volume data in Oakland: Real Estate Research Council, Oakland Board of Realtors, California Association of Realtors, Institute for Real Estate Economics at the University of California at Berkeley, the City of Oakland Office of Transfer Tax Assessment, Alameda County Recorders Office. The Oakland Office of Community Development (OCD) did conduct a 1988 sales price survey of single-family homes within the CD Districts. Selections from this survey are listed below in Table III.

TABLE III.

Selected 1988 Median Single-Family Sales Prices
Within Oakland's Community Development Districts

District	Median Price: 2 Bedrooms or Less	Median Price: 3 Bedrooms
Lower Fruitvale	81,250	104,000
Glenview/Laurel	130,000	179,500
Oak Knoll	87,500	130,000
Lower San Antonio	NA	125,000
Downtown/Chinatown/ West Oakland	93,000	NA
North Oakland	109,000	155,000
Laurel	115,000	179,000
Central East Oakland/ Elmhurst	59,000	NA

Source: 1988 Sales Price Survey, Office of Community Development, Oakland, California

The National Association of Realtors reports that on average homes change hands every seven years. Were this average to apply nationwide, approximately 14% of the single-family housing stock in any community could be expected to sell each year. While no accurate figures of actual single-family home sales are available in Oakland, a very conservative estimate may be made using the following assumptions.

- Assume that of the 60,805 single-family units in Oakland, 71.4% or 43,414 are located in the flatlands, roughly coinciding with the City's residential areas south of the MacArthur Freeway (580) and west of the Grove Shafter Freeway (24). (Source of Assumption: OCD, City of Oakland HAP).

- Assume that only 2.3% or about 1 in 40, of these units sell each year.

Based on these assumptions, conservative estimate of single-family sales transactions within the seven Community Development Districts of the City would be 1,000 sales per year. The median price range of homes in the CD Districts shown in Table III above goes from a low of $59,000 to a high of $179,500. These higher priced homes are likely located outside the Districts. Four and five bedroom homes in these neighborhoods sell for even more. OCD staff estimate the 1988 median sale price of single-family homes in the CD Districts at $100,000.

Given these average sale prices and the conservative estimate of 1,000 sales per year in the Community Development Districts, there exists an annual need of $90 million for mortgage purchase loans of one to four unit dwellings located in the Districts. If a still conservative assumption of 1 home in 20 selling per year (or 5% of the single-family housing stock) were made, then the annual need for mortgages in the CD Districts would double to $180 million. This assumes a 10% down payment on an average priced home of $100,000.

2. Home Improvement Loans

Oakland's 1988 HAP notes that there are 6,175 substandard single-family dwellings occupied by lower income households, and another 1,883 vacant single-family dwellings in need of rehabilitation, for a total of 8,058 lower income occupied or vacant substandard homes in Oakland. OCD staff estimate average rehabilitation costs at $17,500 per unit.

Given these figures, there exists a current need in Oakland for home improvement loans to lower income households of $141.1 million in home improvement loans.

3. Rental Rehabilitation Loans

Oakland reports 5,125 substandard rental units either occupied by low income tenants (4,751) or vacant (374) which are suitable for rehabilitation. OCD staff estimate rehabilitation costs at $30,000 per unit for vacant units, and $20,000 per unit for occupied apartments. These figures indicate a current total need of rental rehabilitation loans in the amount of $107.2 million. Of that total, $95 million is required for rehabilitation of substandard apartments occupied by low income tenants, and $11.2 million is needed to rehabilitate vacant apartments in the City.

4. Rental Housing New Construction

Oakland reports 31,400 low income tenants living in the City paying more than 30% of their adjusted gross income for rent and utilities. These households are burdened by their rent payments, being forced to make monthly decisions between payment of rent, health care costs, food costs, transportation, clothing and other necessities. It may be argued that each of these renter households is in need of a new apartment which is affordable, decent, sanitary and suitable for their needs. However, the relative unavailability of building sites, the extremely high cost of housing subsidies needed to make up the difference between low income

tenant rent and the costs of development, and other factors make it unlikely that such a large number of apartments affordable to lower income families will be built in Oakland. Nevertheless, there exists today, and will continue to exist for the foreseeable future, a need for large scale new construction of affordable rental housing in Oakland.

The City has adopted a policy of building at least 500 units a year affordable to renters living below 80% of median income. OCD staff estimate total development cost at $85,000 per unit. Assuming that construction lenders forward 40% of the total development costs of rental projects and permanent lenders forward 30% of total development costs, an estimate may be made of the volume of construction loans and permanent loans required for affordable rental housing. Construction loan requirements total at least $17 million per year (1988 dollars), based on the foregoing assumptions. Annual permanent loan requirements total at least $12.75 million in 1988 dollars. These loan requirements will grow with inflation.

In addition, the City of Oakland is developing a 1989 Oakland Housing Partnership, designed to provide area corporations with equity investment opportunities in low income housing through federal and state Tax Credits made available for this purpose. The City hopes to raise between $10 million and $16 million in corporate equity commitments. These commitments will be paid over a five to six year period in installments. The struc-

ture of the Oakland Housing Partnership creates a need for intermediate term bridge loans for those low income rental housing projects benefiting from OHP investments. These bridge loans will require a term of five to six years. The amount of bridge financing needed for projects supported by the Oakland Housing Partnership is estimated to be between $10 million and $16 million.

Table IV. below summarizes Oakland's affordable housing credit needs.

TABLE IV.

Summary of Oakland's Affordable Housing Credit Needs

Single-Family 1-4 Unit Mortgage Purchase Loans in 7 CD Districts	1,000/year	$90,000 avg. loan size	$ 90	million per year
Home Improvement Loans	969 units (12% of 8,058 units in need)	$17,500 avg. loan size	$ 16.9	million per year
Rental Rehabilitation Loans	570 occupied units (12% of 4,751 in need)	$20,000 avg. loan size	$ 11.4	million per year
	93 vacant units (25% of 374 units in need)	$30,000 avg. loan size	$ 2.8	million per year
Rental Housing Construction ($85,000/unit development cost)	500 units affordable below 80% median income	Construction loans @40% development cost	$ 17	million per year
		Permanent loans @30% development cost	$ 12.75	million per year
Bridge Loans	1989 Oakland Housing Partnership		$ 10-16	million

TOTAL AFFORDABLE HOUSING ANNUAL CREDIT NEED: $160.8 - $166.8 MILLION PER YEAR

Another important credit need for affordable housing in Oakland addresses the serious problem of preserving affordable rental housing at risk of losing its federal subsidy. Through the late 1970's and 1980's, hundreds of thousands of federally subsidized units were built nationwide by profit motivated developers. These projects are at risk of converting to market rate housing, thereby evicting their low income tenants, for two reasons. Some of the projects allow their for-profit owners to prepay their federally subsidized mortgages, and thereby opt out of their contract rent restrictions. Other projects were made affordable to low income tenants by rent subsidy contracts of 15 to 20 year terms. These federal rent subsidy contracts are not expiring. Owners may not choose to renew subsidy contracts. Furthermore, it is unclear whether Congress will make funds available for renewal of subsidy contracts.

OCD staff estimate there exist between 1,200 and 1,400 units under for-profit ownership which may be at risk of converting to market rate. Non-profit housing development corporations and the City have both expressed deep concern over preserving these units as an important, existing resource of affordable rental housing. Lenders may be called upon to play a role in assisting the preservation effort by extending acquisition loans to non-profits, refinancing loans for profit motivated owners who choose to maintain affordable rents, and possibly for rehabilitation loan funds to refurbish these older projects. It is not possible at this writing to quantify the credit needs for the affordable housing preserva-

tion effort in Oakland. These needs will arise on a project by project basis, and area lenders should be prepared to extend loans as needed to creditworthy borrowers under accessible and affordable terms.

5. Non-Profit Housing Development

Virtually all low income rental housing construction in the last eight years in Oakland has been built by non-profit housing development corporations (HDC's). These HDC's have built up an impressive track record of housing development and management in Oakland, and throughout the San Francisco Bay Area. The importance of the contribution of non-profit HDC's has been recognized by both the Congress and the California Legislature, where both the federal and state Low Income Housing Tax Credit programs require a minimum 10% set aside for non-profits. Bay Area residential lenders have recently begun to work with these non-profits. Those lenders most active with Oakland HDC's have been Citicorp Savings and Wells Fargo Bank. First Nationwide Bank and the Savings Association Mortgage Corporation (SAMCO) have been active to a lesser degree. California First Bank has recently pledged a commitment to lending for low income housing developed by non-profit HDC's. Most of the recent lender involvement with HDC's resulted from negotiated community lending commitments under the Community Reinvestment Act. Wells Fargo, Citicorp

Savings and California First Bank have all made community lending commitments which involve the extension of construction and take out financing for low income housing projects developed by non-profits.

The following discussion on underwriting will review concerns which the non-profit housing development community have with respect to the underwriting of their projects by these lenders.

Other non-profits, e.g., Elmhurst Local Development Corporation and Oakland Neighborhood Housing Services, have more recently built for-sale housing affordable to lower and moderate income families. These non-profits have a need for both construction financing for their projects (either new construction or rehabilitation loans), and mortgage purchase loans for homes they construct. In both the case of for-sale and rental housing, non-profits typically build in neighborhoods where other developers are reluctant to work. In Oakland, the development activity of these non-profits is concentrated virtually without exception within the seven Community Development Districts of the City.

6. Single Room Occupancy Hotel Acquisition and Rehabilitation

Both non-profit housing development corporations and OCD staff indicated in interviews the reluctance of both commercial banks and thrifts to make acquisition and construction loans for single-room occupancy (SRO) hotels.

SRO hotels provide a critically important housing resource for very low income individuals and families. SRO hotels are typically viewed as providing transient housing. However, a study of SRO hotel residents in the Skid Row neighborhood of Los Angeles found that many tenants had occupied their hotel rooms for 10, 15 and in some cases 20 years. Wells Fargo Bank, in its efforts to carry out its CRA community lending commitment, repeatedly expressed a lack of desire, if not outright unwillingness, to extend construction loans to the rehabilitation of SRO hotels in Oakland. Wells Fargo ultimately agreed to provide the construction note for the California Hotel, a major project of Oakland Community Housing Inc. Other SRO hotel owners and prospective buyers have complained to OCD staff that they have been unable to secure acquisition or construction financing from lenders for their projects.

While certainly a special category of lending, construction and acquisition loans for SRO hotels remain a vitally important credit need for affordable housing to some of Oakland's neediest tenants.

B. Loan Products and Lenders

As with small business lenders, originators of residential loans are a diverse lot. Unlike small business lenders, many large institutions--both thrifts and commercial banks--are actively involved in one form or another of residential lending. This is especially true for single-

family mortgage purchase loans. Sophisticated, extensive and diverse secondary mortgage markets exist for single-family lending. Efforts to establish secondary markets for multi-family and other community development loans are underway. This section briefly reviews the loan products, terms and pricing generally available from residential lenders.

1. Single-Family Mortgage Purchase Loans

By far the largest sector of the residential lending industry is devoted to mortgage purchase loans for single-family residences. Home mortgage loans are available at 15 and 30 year terms. While fixed rate mortgages are still generally available, adjustable rate mortgages (ARM's) are increasingly emphasized by lenders. ARM's initially qualify buyers at lower interest rates than conventional, fixed rate mortgages. In today's market initial qualifying rates for ARM's range from 7.5% to 8.5%. Typically, ARM's have a 5% cap on them over the term of the loan with a 2% annual cap. Different lenders tie their ARM rates to different indices: Eleventh District Cost of Funds, Treasury Bills, the prime rate of a designated lender and others.

A 20% down payment is generally required for home purchase. If a buyer is able and willing to put down 25% of the purchase price, credit approval may be granted automatically by many lenders. Some lenders will allow 10% down payments, but credit approval standards in these cases are generally tougher than for 20% loan-to-value mortgages. Government

insured loans offered through the Federal Housing Administration (FHA), Veterans Administration (VA), California Housing Finance Agency (CHFA), and other agencies have the chief advantage for the borrower of lowering down payment requirements to 5% of the purchase price. VA loans may go as low as 0% down.

However, a number of respondents indicated the underwriting requirements pertaining to the structure, to the credit history of the borrower, and limits on the maximum loan amount ($101,250) of FHA loans restrict their utility in Oakland. FHA-insured loans are readily securitized and sold to a variety of secondary mortgage markets offered by the Federal National Mortgage Association (FNMA), the Government National Mortgage Association (GNMA), the Federal Home Loan Corporation (FreddieMac) and others. Institutional and other investors bought $180 million of FNMA and FreddieMac mortgage-backed securities in 1987 alone.

The limited scope of this study prevents an analysis of the volume and influence of federal mortgage guarantee and secondary market programs on the single-family mortgage market in Oakland, especially in its low income and minority neighborhoods. Many respondents, however, noted that FNMA appraisal guidelines and FHA credit requirements were more a hindrance than an aid in assuring the availability of mortgage loans in Oakland's lower income neighborhoods. Historically, Oakland has made good use of the tax-exempt mortgage revenue bond program authorized by

the federal Internal Revenue Code. Tax-exempt mortgages, such as those offered through bond issues of the City and agencies such as CHFA have historically offered borrowers 30 year loans at 2.0 points or more below prevailing interest rates. The 1986 Tax Reform Act severely restricted the volume of tax-exempt bonds which may be used for housing and other purposes. Additionally, the interest rate difference between tax-exempt mortgages and market rate mortgages has narrowed. These two factors combine to lessen the importance of tax-exempt mortgages for first time, single-family home buyers.

A general consensus emerged from the interviews that conventional home mortgage lenders were largely absent from Oakland's low income and minority neighborhoods. This disturbing trend is discussed further in the following section on underwriting and Section III: Racism and Image in Oakland: Effects on Investment and Credit Availability. Some conventional lenders were mentioned as more willing to lend in low income and minority neighborhoods than others. One respondent referred to Home Savings of America as a "savior in our area." Other lenders mentioned by several respondents as more willing to lend in poor neighborhoods were Great Western and First Nationwide.

Into the relative vacuum left by conventional lenders in low income neighborhood markets have rushed a variety of mortgage banking, brokerage and beneficial finance corporations. Several mortgage banking concerns have

extraordinary lending records in the City's poor neighborhoods. Enterprise Mortgage Services claims to have originated 10,000 loans in neighborhoods throughout the seven Community Development Districts.

> "At one time, FHA (in the '70's) could not find lenders who would take these loans in high risk areas. We'd take the loan....It's in my blood. I believe that anyone who's capable of making the payment should have the opportunity to get a loan....It's a very delicate subject. How can you tell one man that his area you might say is a risky area and another is not? How do you draw the line if a house is brought up to standard?...As long as the take-out was available, we were willing to make the loan. FHA would refer foreclosures to us. Real estate brokers referred to us. We had that reputation of not having any boundaries to where we were willing to lend."
>
> --- Principal, Enterprise Mortgage Services
>
> "We're an FHA, VA, FNMA and FreddieMac approved lender. We're a moderate sized company. We wrote 1,000 mortgages statewide last year. Our Oakland office opened a year ago, and we've already written 120 mortgages in the City. I've authority to approve loans directly. Our typical loan is an $85,000 FHA loan. Our typical borrower is a blue collar worker with significant credit problems. We're able to write these loans. It's not cost effective in Oakland, its too much work for Citicorp to bring in investment quality mortgages.
>
> We do a lot of credit problems. How do they come about? What was the situation? What is the situation now? It's a very time consuming process to see if there is a basis in approving the loan. Typically our borrowers would be summarily dismissed by other lenders. We combine a quantitative and qualitative analysis of the borrower. No one ever got fired for not making a loan. Underwriters are very concerned about developing bad relations with their (secondary market) investors.
>
> Every one is able to do it. It's profitable, but not as much as others. For us we have other profitable areas.

> We did a lot of Section 221(d)(2) loans in East Palo Alto. It was a tough market to lend in at the time. But we made a lot of money there. That was the margin that put the company on a profitable basis. It was a market in transition, with a lot of deferred maintenance. Rehab loans require a lot of work. Make sure the work's done right, people don't get ripped off, set up procedures to make the loans on a viable basis. The average Oakland property we lend on is 40 years old. It's in good to fair condition, and it's located in East and West Oakland.
>
> I've lived in Oakland all my life. I'm black. I'm aware of some of these attitudes, reservations about Oakland. I asked a regional vice president at Security Pacific why he had problems lending in Oakland. He said it had a lot to do with the Black Panthers, a lot to do with Oakland, not just Blacks.
>
> Lenders can play a role in making Oakland a virtual paradise, but there doesn't seem to be the interest. There's a communication problem between Oakland and lenders. They (lenders) focus on Montclair, Trestle Glen, not the CD Districts. We feel we have a real opportunity here in Oakland. The President of the company is very enthusiastic about Oakland, and wants to do a lot more business."
>
> --- Loan Officer, Golden Bay Home Capital

Without these small, specialty mortgage brokerage concerns, it is unclear whether homebuyers in the City's minority and low income neighborhoods would find ready access to affordable mortgages. A loan product that has emerged as prevalent for homes in the CD Districts is a second deed of trust. According to the President of Valva Realty, that company will often arrange secondary financing during times of high interest rates. Finance companies also seek to fill the relative vacuum left by conventional lenders.

> "In West Oakland you don't find very many bank loans. There were virtually no FHA loans made in that area. Typical of the agencies that operate in West Oakland are

Valva Realty. They use funny money. But they're responsible for a lot of transactions. At least they're there."

--- Participant, Oakland Housing Organizations

"We end up going to lenders we never heard of before. Second deeds of trust have become prevalent in low income neighborhoods. Companies like Beneficial Finance and Marathon Homes have high terms and rates. Their terms are real short. People need money and no one else will give them a loan. These are pure real estate equity lenders. They don't care about the credit history of the borrower, or if spots on the credit history are a problem. Some folks don't even try to go to banks because they know they'll never get a loan. We (the City) try to get them hooked-up with a more reasonable lender."

--- OCD Staff

"We've attempted to get mortgage financing from private lenders in East and West Oakland. It's real difficult to get our hands on any marketing efforts by the lenders. There's no presence of lenders in our low and moderate income neighborhoods. The hard money types are getting the lion's share of lending. Renters trying to move to homeownership find it real difficult to get conventional lenders to extend credit to them. It's a form of red-lining. The applicants are not seen as worthy of a good prime rate loan by banks. Bank's have no real need to be responsive to the City."

--- Executive Director, Non-Profit Community Service Agency

The prevalence of mortgage brokers and unconventional lenders is not a new phenomenon in Oakland's minority neighborhoods. The 1979 Community Economics study of income and capital flow for East Oakland found this to be a longstanding concern not only for affordable housing, but for small business lending as well.

> "A major concern of neighborhood and community organizations over the last decade (i.e., 1968 to 1978) has been the lack of conventional mortgage credit for East Oakland residents for housing purchase and for home improvement loans. The costs of credit paid by residents for consumer loans and the availability of small business loans for operating purposes, for upgrading or expansion for undertaking new ventures are additional concerns of community residents and businesses.
>
> Community Economics findings show that East Oakland's households and small businesses are not always well-served by the conventional lenders of savings and loan associations and commercial banks. The problem faced by East Oakland residents is not really that they are "redlined" by all lenders and unable to obtain credit. The credit gap left by conventional lenders is readily filled by other lenders--but at considerably higher rates of interest than paid elsewhere in Oakland that channel additional dollars out of the community."
>
> --- Community Economics, An Income and Capital Flow Study of East Oakland, 1979

This finding of Community Economics a decade ago is particularly troubling when compared to the deposit assets held by East Oakland thrifts and banks at the time. Community Economics reported that these institutions held almost $1 billion in deposits in 1978, and that more than 75% of these deposits were at branches which serve the East Oakland community and nearby residential areas. The remainder of the deposits were located at branches on Hegenberger Road, and comprised primarily industrial and commercial accounts. Community Economics estimated in 1979 that between $370 million and $440 million of the total $967 million in deposits represented accounts from East Oakland's households, while the remainder were from surrounding residential areas and businesses. These findings are summarized in Table V. Since that time, both Wells

Fargo and Bank of America have closed branches in East Oakland. Many respondents complained bitterly about these branch closures, noting that they denied access to credit for both affordable housing and small business needs in the neighborhood.

Community Economics carried their income deposit analysis one step further. They noted that during the period 1970 to 1975, savings and loans originated only $72.9 million in home mortgages, while commercial banks originated $62.5 million in home mortgages. Mortgage companies were far more active, lending $106.3 million during the same period, or 44% of the total $241.7 million originated between 1970 and 1975. Clearly, large amounts of East Oakland deposits were going into banks and thrifts in the form of resident accounts. However, these funds were not reinvested in the neighborhood, but rather in other more affluent areas of the City and the region. Table VI. shows the disparity between mortgage lending by thrifts and banks in affluent areas of Oakland compared with that found in East Oakland.

2. Home Improvement Loans

As noted above, there exists a large number (6,145) of homes in Oakland owned by lower income families and in need of rehabilitation. These rehabilitation needs have been identified by surveys the City has conducted, using generally accepted guidelines for the identification of

TABLE V

DEPOSITS AT EAST OAKLAND SAVINGS AND LOAN ASSOCIATIONS AND COMMERCIAL BANKS, 1975 AND 1978

SAVINGS AND LOAN ASSOCIATIONS:

Location	1975 Number of Accounts (number)	1975 Amount of Savings ($ million)	1978 Number of Accounts (number)	1978 Amount of Savings ($ million)	1975-197 Increase Savings (percent
Branches primarily in East Oakland market area (5)[a]	28,804	$125	33,267	$159	27%
Branches drawing heavily on other market areas (7)	34,684	151	45,826	235	56
Total (12)	63,488	272	79,093	394	45

COMMERCIAL BANKS:

Location	1975 Checking ($ million)	1975 Savings ($ million)	1975 Total[b] ($ million)	1978 Checking ($ million)	1978 Savings ($ million)	1978 Total[b] ($ million)	1975-1978 Increase in Deposits (percent)
Branches primarily in East Oakland market area (12)	$42	$133	$176	$46	$151	$198	13%
Branches drawing heavily on other market areas (6)	24	116	140	30	135	165	18
Subtotal (18)	66	249	316	76	286	363	15
Branches on Hegenberger Rd. (3)	96	76	209	79	92	210	-
Total (21)	162	325	525	155	378	573	9

a. Number in parentheses is the number of branches in each category.

b. Total includes public deposits as well as private checking and savings accounts.

SOURCE: Savings and loan association data from Federal Home Loan Bank of San Francisco, Savings Balances and Accounts, June 30, 1975 and June 30, 1978. Commercial bank data from Federal Deposit Insurance Corporation, Summary of Deposits, June 30, 1975 and June 30, 1978.

TABLE VI

NUMBER OF MORTGAGE LOANS AND VOLUME OF MORTGAGE LENDING TO EAST OAKLAND AND THE REST OF OAKLAND BY TYPE OF LENDER, 1970 - 1975 TOTAL

NUMBER OF MORTGAGE LOANS:

Type of Lender	East Oakland: Number of Loans (number)	East Oakland: Percent Distribution (percent)	Rest of Oakland: Number of Loans (number)	Rest of Oakland: Percent Distribution (percent)
Savings & Loan Association	2,784	27%	7,100	67%
Commercial Banks	2,452	24%	2,292	21%
Mortgage Companies[a]	4,928	49%	1,240	12%
Total	10,164	100%	10,632	100%

VOLUME OF MORTGAGE LENDING:

Type of Lender	East Oakland: Amount of Loans ($ million)	East Oakland: Percent Distribution (percent)	Rest of Oakland: Amount of Loans ($ million)	Rest of Oakland: Percent Distribution (percent)
Savings & Loan Associations	$72.9	30%	$244.1	67%
Commercial Banks	62.5	26%	87.7	24%
Mortgage Companies[a]	106.3	44%	33.1	9%
Total	241.7	100%	364.9	100%

a. Includes a small amount of other loans.

SOURCE: Mortgage loan data base for Oakland provided by Assistant Professor Martin Gellen, Department of City and Regional Planning, University of California at Berkeley.

substandard dwellings. These substandard homes represent a blight on their neighborhood, inefficient energy usage due to poor insulation or insufficient heating plant, threats to safety caused by structural problems and/or sanitary and health concerns caused by substandard plumbing and bathroom facilities.

OCD has in the past, and continues today, to administer a home improvement loan program using a variety of federal insurance (FHA, e.g., Section 235, 203(k) programs) and subsidy (Community Development Block Grant) funds. Barring direct guarantees or subsidies from these programs, no evidence was found of any lender offering or marketing home improvement loans.

Instead, virtually all conventional lenders today offer home equity loans. These loans, typically structured as second deeds of trust, are a creature of the 1986 Tax Reform Act. That Act phased out consumer interest deductions, with the exception of interest payments on equity loans from a borrower's principal residence. As a result, both commercial banks and thrifts compete fiercely to sell home equity loans to homeowners as a tax-advantaged way to finance consumer debt.

Proceeds from home equity loans may be used by borrowers for any purpose. No lender questioned was able to identify with any certainty how borrowers were using these loans. Likely uses include debt consolidation, car

purchase, college tuition--and home improvement. The loans routinely carry variable rates of interest, tied to indices similar to those used with ARM's. The California State Employee's Credit Union does offer a fixed rate home equity loan. These loans, fully amortized, are written at 5, 7, 10 and 15 year terms for 10.5%, 11%, 11.5% and 12% rates of interest respectively. No points are charged. A $240.00 appraisal fee and escrow fees are charged.

Home equity loans are among the most fiercely marketed loan products offered by lenders. Consumers are deluged with billboard, print and broadcast media ads, mailers enclosed with monthly statements, banners and fliers at every branch, and unsolicited mailers.

OCD staff have raised the question of how lenders will report home equity loans under terms of the Home Mortgage Disclosure Act (HMDA). HMDA, a companion piece of legislation to the Community Reinvestment Act (CRA), requires federally regulated lenders with more than $10 million in assets to report residential loans in four categories: (1) owner occupied single-family mortgages, (2) home improvement loans, (3) FHA and VA government insured loans, and (4) multi-family loans. In an OCD staff interview, staff questioned whether lenders were reporting home equity loans under the home improvement loan category, even though many if not most home equity loans are not used for home improvements.

3. Rental Housing Construction and Permanent Loans

Construction and permanent lending for low and moderate income rental housing is a critical credit need in Oakland. In recent years the new construction and rehabilitation of rental housing affordable to lower income households has been almost the exclusive domain of non-profit housing developers. Prior to the 1986 Tax Reform Act, long-term tax-exempt financing was available for multi-family new construction loans. However, with the passage of the Act, and its creation of the Low Income Housing Tax Credit, tax-exempt financing for multi-family projects became much less viable. The value of the Credit is steeply discounted when used in conjunction with a subsidized federal interest rate such as those available from tax-exempt financing.

Non-profit housing developers of low cost rental housing have relied almost exclusively on a small number of construction and permanent lenders. These lenders have emerged through their commitment to community lending programs under the Community Reinvestment Act (CRA) and through discounted mortgage funds available from the Community Investment Fund (CIF) of the Federal Home Loan Bank Board.

CRA Community Lending Agreements

Several institutions in the Bay Area have made notable commitments to community lending programs under CRA. These include Wells Fargo Bank, California First Bank and Citicorp Savings. Each of these agreements resulted in discussion and negotiation with the California Reinvestment Committee, an ad hoc coalition of low income housing and community economic development advocates, public agencies, consumer advocates, legal service agencies, and public interest law firms. The City of Oakland, along with other local jurisdictions in California, has participated in CRA negotiations with these lenders. In each case, these three institutions committed themselves to construction and permanent loans for low cost rental housing projects, especially those developed by non-profit organizations. Wells Fargo has committed $18 million annually to its low cost housing program. Each year since 1986, when its first commitment was made, Wells Fargo has exceeded its $18 million lending goal. Only that portion of loans originated by Wells Fargo which supports units affordable to renters at or below 80% of the area median income, adjusted for family size, count toward the Wells Fargo lending goal. California First Bank has committed approximately $40 million in low cost rental housing loan commitments, with an emphasis on units affordable to families below 50% of the area median income. The $40 million California First goal was made for a two year period beginning in 1989.

In its acquisition of Rainier Bank Corp in Seattle, Security Pacific Bank met repeatedly with representatives of the California Community Reinvestment Committee (CRC) to discuss its commitments to low cost housing and community economic development lending. While Security Pacific promised CRC representatives a responsive lending program, no such program has emerged from the Bank. No other major California lender has been approached to negotiate a community lending agreement, particularly for multi-family housing credit needs.

Citicorp did not specify a dollar goal, but had been active in extending permanent financing to non-profit developers of low cost housing in Oakland. Citicorp has also augmented its community lending program with a foundation grant giving program to support the operating costs of non-profit housing developers and housing service agencies in Oakland and the Bay Area. Citicorp Savings is able to offer a competitive, relatively low interest rate on its permanent loans by securing loan capital commitments from the CIF of the Federal Home Loan Bank Board. CIF is a nationwide program of the Board which periodically advances loan proceeds at a rate discounted one to two points below prevailing market rates of the time. Lenders are able to draw upon Bank Board advances to make lower costs loan capital available for affordable housing projects.

Another institution which has been relatively active in the use of CIF monies is the Savings Association Mortgage Company (SAMCO). SAMCO is a volunteer, for-profit consortium of approximately 60 thrifts which has advanced roughly $80 million in loans for low and moderate income multi-family housing projects. SAMCO has worked in the past with non-profit housing development corporations, and has been one of the few sources of loan capital for low and moderate income housing cooperatives.

Great Western Savings and Loan gave up to $250,000 in 1988 to three non-profit HDC's, two of which work in the Bay Area. The Les Shaw Award is named after a former Great Western Vice President for Community Affairs, and honors outstanding HDC's.

A new program of community lending is currently under development in California. Titled the California Community Reinvestment Corporation, not to be confused with the Community Reinvestment Committee, the effort is designed to establish a $100 million revolving loan pool committed by a consortium of commercial banks. Not unlike SAMCO, this loan pool would make investments in low and moderate income housing projects, developed predominately by non-profits, shared in by participating commercial banks. The project is under development by the San Francisco Development Fund, with support from the President of the Federal Reserve Bank of San Francisco, Mr. Robert Parry. Mr. George Moody, Chairman of Security Pacific Bank, has agreed to chair the initial development effort for

California Community Reinvestment Corporation. The success of this effort will depend upon its creation of a secondary mortgage market for its loans. As noted in the section above defining the market for affordable housing in Oakland, $100 million hardly suffices for the low cost rental housing credit needs of a single neighborhood in the City, let alone the statewide credit needs in this area.

Mr. Rick Devine a participant in California Community Reinvestment Committee negotiations, notes that regardless how much specificity is determined in a community lending agreement, a number of important credit, term and underwriting issues remain to be worked out between non-profit developers of low cost rental housing and lenders. He describes how non-profit developers and lenders are learning to accommodate their mutual, and sometimes divergent, needs by:

. "matching interest rate increases with increases in cash flow, so that scheduled mortgage payment increases become part of the planning for the project, and are based on projected cash flow increases, not on market factors beyond the control of the borrower;

. deferring interest payments until the proceeds of syndication become available;

. structuring the loan to include gradual increases in monthly payments, with the increase going to reduce the outstanding principal balance; this reduces the amount of time it takes to pay off the loan;

. structuring the loan with a 12.5 year term, but calculating the payments as if the loan were for 30 years. (this will leave some unpaid principal to be paid off or refinanced at the end of the 12.5 year period; at that point the project should be considered much less risky because it will have a track record).

- fixing the interest rate for somewhere between five and seven years, and only then allowing it to fluctuate."

--- Mr. Rick Devine, <u>The CRA Reporter</u>, Volume 2, Number 3, Fall, 1988

Non-profit housing developers in Oakland have experienced a wide range of loan pricing policies by lenders. The interest rate on both construction and permanent loans does not vary widely among lenders active with non-profit developers. However, several respondents noted that:

> "Banks are not competitive with SAMCO and Citicorp. They say it's because of CIF. Banks are very consistent in their argument about rates. We're not getting rates that are significantly better than those available to other customers....Compared to their best customers, we aren't getting any great shakes. But the lenders say they lend at rates comparable to those available to their best customers.
>
> I don't think rates and terms of bank loans aren't particularly favorable. Bank of America did their first CRA loan to a Peninsula non-profit. They offered what they called below market terms, 10 1/4% plus 2 points for construction (that was prime plus one at the time), plus a permanent loan at 10 1/4% with a total of 2 points. They called it a CRA loan."
>
> --- Technical Assistance Provider to Non-Profit Housing Developers
>
> "The rate is okay. Pricing is not problematic. CRA is not necessarily cheaper money."
>
> --- Executive Director, Non-Profit Housing Developer
>
> "The terms are not too bad. We pay 1% above prime."
>
> --- Technical Assistance Provider to Non-Profit Housing Developer

What has occasionally proven problematic for non-profits is the costs associated with closing a loan. These include loan points or fees, plus other expenses such as appraisals, attorneys fees of the lender and others.

> "We pay for all of (Bank X's) costs. The appraisal fee. That's reviewing an appraisal we've already gotten. The inspection fees, the attorney costs, engineering fees. That's a concern for us. We have no control over how much time their attorney spends. It ended up costing us $40,000 in costs. That's effectively an additional 3 points on the loan."
>
> --- Technical Assistance Provider to Non-Profit Housing Developers
>
> "At first the bank said maybe they would give us a loan for the project. This usually occurs just before a CRA committee meeting. Then they were more specific. Three and one half points up front. At one point they were going to charge us 16 points! They've been totally unresponsive to non-profit pricing needs. These costs go directly into tenant rents for us. For (one of our projects), they asked for a $10,000 fee up front to look at the project before we closed the loan.
>
> The biggest problem non-profit developers have encountered with lenders is the relative unavailability of long-term fixed rate permanent financing. Since most of these projects use the Low Income Housing Tax Credit, it's not feasible for them to employ tax-exempt financing. Previously, tax-exempt financing had provided a source of long-term, fixed rate financing for these projects. The maximum term most non-profits seem able to secure for their multi-family projects is 15 years. Some non-profits have negotiated loans which remain fixed for the first 7 to 10 years, and then adjust upwards over a longer term note, as long as 30 years."
>
> --- Technical Assistance Provider to HDC's

Ironically, a small mortgage lender in Oakland indicated in an interview that his bank routinely offers long-term fixed rate financing for multi-family projects.

> "Multi-family lending is not our forte. We do some loans, but nothing in a large volume. But we have an absolute interest in doing both construction and take out financing. If someone brought us a deal, we'd definitely be interested. We get the terms right over the computer from FreddieMac. Currently it's 11.5% fixed rate for 30 years fully amortized. We'll be reasonable on the points, 2 to 4 points, depending on if it's necessary to buy the rate down. We'd like a loan to range from $1/2 million to $1 million or more."
>
> --- Mr. Gilbert Richards, Golden Bay Home Capital

It seems as if non-profit housing developers may do well to contact Golden Bay Home Capital.

Another problem encountered by non-profit housing developers is in the area of guarantees for construction loans. Those lenders at all active in construction lending on lower income multi-family housing projects have required at times extraordinary guarantees or compensating deposit relationships:

> "They (Bank X) decided that for their multi-family loan, which represented only 30% to 40% of the project's development costs, they determined that their loan has enough security because they're in and out of the project in 18 months as a construction lender. But they wanted everything subordinated to them. Even the disposition agreement, that is the regulatory agreement for the use of the land. (Bank X) required (non-profit A) to provide a repayment guarantee on a $3.5 million loan. The non-profit had to provide it on a total $17 million construc-

tion budget. We had to close and start construction, because of the timing of the federal support for the project."

--- OCD Staff

"Another non-profit encountered a construction lender who wanted a huge guarantee. The non-profit had formed a new corporation for syndication purposes. (Bank X) treated it as a new entity with no track record, and was very reluctant to lend. This bank is a credit lender, not a real estate lender. Syndicating permanent loans must be non-recourse, but lenders are requiring recourse loans. They're also requiring larger contingency reserves for construction when non-profits are involved. Ordinarily the range might be in the 5% to 10% contingency area. But these lenders want additional guarantees, such as a letter of credit for 10% of the hard cost of construction, in addition to contingency set asides. We don't want to bring in another lender on the deal, even though we're not happy with it, because we've spent six to eight months educating this lender. We can't go to another lender."

--- OCD Staff

"(Bank X) was going to require a letter of credit for between 10% and 20% of construction costs. They're used to large guarantees. We don't have the assets to pledge. And we can't go to a bank and get a letter of credit. We told them we couldn't do it. The City ultimately had to write a letter saying they would put money in the project. If there were a problem, they'd go to City Council with a request for the money. These are deals which are relatively risk free. Of $6.9 million development costs, they're putting in only $1.3 million in construction proceeds for only three to six months. The City money goes in first, then the State money, then the HODAG (Housing Development Action Grant from the federal government), then the lender is in last with a permanent loan take out commitment behind them."

--- Technical Assistance Provider to Non-Profit Housing Developers

"(Thrift X) did (Project A), several years ago. They didn't know how to appraise the loan. They required (the non-profit) and the City to put up $1 million in deposits without interest. We'd never agree to do it without

> interest. And this was on a $538,000 loan amount. They required the deposit for the permanent loan closing. They would draw down on the combined construction, permanent loan. The real issue isn't availability of money, except in certain neighborhoods. It's the cost of capital that's the issue."
>
> --- Technical Assistance Provider to Non-Profit Housing Development Corporation

Some banks were praised for extraordinary efforts they have made through their community lending commitments. One respondent praised Wells Fargo for a letter of commitment they issued over the weekend in order to secure a federal HODAG award to a project. Many respondents noted that despite the difficulties they have with lenders on multi-family projects, they have invested so much time educating the lenders about themselves, the government programs upon which they rely, and the neighborhood that they cannot afford the time to go back to another lender. SAMCO was singled out for praise in its processing time:

> "SAMCO is very easy to deal with. You apply directly to the loan committee. You get a yes or a no. The whole process takes two months. That's the process we need. These lenders have no standard terms or conditions. We have to negotiate on a deal by deal basis."
>
> --- Non-Profit Developer

Despite the problems, both non-profits and those lenders who have been active in affordable multi-family housing seem to be bridging their differences. Several respondents from the non-profit development sector were exceedingly reluctant to be quoted.

> "No names of institutions. I have to work with these lenders. That's why there hasn't been more criticism. You want to encourage them to do more, but you hope they will change their way of doing business. It has to be constructive criticism. (State Agency A), (Thrift X) and (Bank Y) have been responsive to pressure and criticism.
>
> I haven't contacted smaller lenders because it takes such a lot of investment and time. We don't have the time to do the education of all the lenders. Building relations with lenders makes it easier. Not knowing if we'll get the loan out of the smaller institution, with a six month or eight month education process involved, makes us very reluctant to approach them in the first place. We've had the experience of getting no loans after some contact with lenders.
>
> It's wonderful when you have an educated staff at the lender who really understands these programs. They help the economic base of the City. They provide neighborhood stability. We're not asking them to do it for free... affordable housing is a public issue and lenders are in the public eye. This is not just another business deal."
>
> --- Non-Profit Housing Developer

C. Underwriting

Several underwriting issues emerged as central to unmet credit needs in the area of affordable housing in Oakland. These are discussed below.

1. Location, Location, Location

The old story about what three factors are most important in determining the value of real estate is alive and well in Oakland. Location, location, location. Respondent after respondent noted that both today and for as long as interviewees could remember, there exist disparities in

the availability of credit for housing loans in Oakland's lower income neighborhoods compared to other parts of the City. The prior section discussed the 1979 findings of Community Economics which showed the relatively low levels of investment made by traditional thrift and commercial bank lenders in the City's CD Districts. The vacuum left by conventional lenders was filled by higher priced mortgage and beneficial finance companies.

Interviewees for this current study confirmed that this trend exists today in Oakland. The origins of such discrepancies lie in discriminatory lending practices which are decades old, and which were practiced throughout the country. As one respondent noted, even FHA lending guidelines resulted in the explicit exclusion of low income and minority neighborhoods from eligibility for loans. This practice, often called redlining, prompted the Congress to enact the Community Reinvestment Act in 1977.

Empirical research conducted by a number of community reinvestment organizations nationwide using the Home Mortgage Disclosure Act (HMDA) database show a consistent pattern today of continued practices of discriminatory lending by the race and income characteristics of neighborhoods. The Woodstock Institute, The Center for Community Change, The National Training and Information Center, Legal Aid centers, university-based researchers, the California Reinvestment Committee, The Atlanta

Journal and Constitution, and others have all documented such practices. This study did not comprise an analysis of HMDA data for Oakland, and no recent study of residential lending patterns by race and income in Oakland has been conducted. The City may wish to commission such an effort.

Barring such a study, however, the interview data clearly show the location of properties in low income and minority neighborhoods of the City as a primary deterrent to the availability of credit for both single-family and multi-family dwellings. Key to this problem is the issue of appraisals. Lenders use appraisals to determine the fair market value of properties. From the appraised values, lenders determine the maximum amount they are willing to lend on a given structure. Typically, lenders require a certain loan-to-value ratio. The standard loan-to-value ratio in single-family mortgage lending has been 80/20, with the lender willing to lend up to 80% of the appraised value of the home in the form of a mortgage, requiring a 20% down payment. Loan-to-value ratios for multi-family lending are typically much lower. Many respondents bitterly criticized the practice of securing appraisals for properties in Oakland's lower income neighborhoods.

> "Appraisers appraise low. Lenders give a low loan-to-value ratio. They get down to below 50% loan-to-value. Lenders order low appraisals. The lending environment has become much more conservative over the last few years. This has been caused by the solvency problems of certain

kinds of lenders. It's caused by toxics, and the risks associated with toxics, both in the building and in the ground."

--- A Developer

"Low appraisals have been a long-standing problem. There are no Oakland appraisers. They come from Contra Costa County. They have a negative stereotype image of the City and its neighborhoods, and they don't know the value of Oakland properties. Slum lords come into these neighborhoods by paying cash for the buildings because they're no lenders available to lend on them. I had tenants who wanted to buy a $55,000 house in West Oakland. They qualified by income. No one would out and out say they wouldn't lend to them. That's against the law. They'd lose the papers instead, or not return phone calls. Houses are sold for 60% of their value. They then get high rents and deteriorate under absentee ownership. Drug dealers don't mind paying high rents. All of Oakland is improving, not just part of it. Why don't lenders understand that?

Let's pick a number that you'll de-value a West Oakland house by. At least we'll know the rules we're playing under."

--- A Developer

"One appraiser said he'd be in line to buy my building at $287,000, but was forced to appraise it at $260,000 at full value. He said there were no comparables for the building. Lenders are redlining Oakland. They're doing it by appraisals. There's nothing we can do about it."

--- A Developer

"These are dumb questions about redlining. Everyone in Oakland knows this goes on. Call anyone in this room (OEDE). They know it, they'll tell you. Cash or owner financing are the only options available. But you can't ask an 85 year old black couple to carryback financing on their West Oakland home. I don't blame the appraisers. They're instructed by the lenders. They're directed by them. The lender wants to know if the value is there. It's the appraiser's role to determine what its worth. We work for the lender. Will the property provide loan security for the lender? Some lenders use appraisal as a

formality with established borrowers. But for other lenders they want the property to carry the value. Low income folks probably don't have a long-standing credit relationship, so the value of the property becomes more important. But they can only afford to buy lower valued properties, ones which lenders might be less willing to lend on."

--- Appraiser

"The property may lie in an area where no lending of any magnitude is done, for example along East 14th Street. Generally, most properties are sold through seller financing there. No loans have been made by institutions in that area for years. It was redlined. It was a fact of life. Black entrepreneurs on East 14th Street could buy property, but they could not rehabilitate properties there."

--- Appraiser

"The lender relies on the appraiser. The appraiser's objective is to be objective, to investigate and reflect what is the market and the demand. Appraisal is a processing tool which interprets the market. Often the appraiser is at a disadvantage when he's from outside of Oakland. You can't appraise in a vacuum. You have to know the income of the area, the ratio, commercial, and housing tenure make-up, especially in the heart of the East 14th Street area. Personal biases do get in the way. We don't have a lot of nice conforming properties. The median age of property in this area is 50 to 65 years old."

--- Appraiser

"The appraiser tries to put aside as much personal baggage as possible. But the lender puts pressure on us by asking certain kinds of questions on the appraisal form. Like what's the racial make-up of the neighborhood? What's the tenant to homeowner ratio in the area? Its arbitrary how they use the information. If the lender knows the area, he knows the racial make-up. Are there a lot of storefront churches in the area? Are there a lot of Mom and Pop stores? Even the FannieMae appraisal form asks about neighborhood make-up. A few years ago certain lenders had Thomas Guides with red lines showing the

> neighborhoods where they wouldn't lend. That's illegal now. Lenders may have thrown out the book, but they still know the areas. They have a long memory."
>
> --- Appraiser
>
> "Lenders want to minimize their loans in low income and minority areas to comply with federal law. Lenders have a history of non-performing loans in these areas. They have an obligation to operate on a safe and sound basis."
>
> --- Appraiser
>
> "Lenders ask for "a quick sale value." Normally you appraise a property based on a 90 day ample exposure to multiple listing services and newspaper listings. But the lenders want to know the quick sale value. They'll use a percentage to discount the value of the property. Maybe 5% to 20% off the appraised value of the property."
>
> --- Appraiser
>
> "Only two places might be redlined in Oakland. The first is West Oakland below Cypress, and the second is Brookfield Village around 98th and Edes."
>
> --- Appraiser
>
> "I'd say they're three areas that are redlined: Sobrante Park at 105th Avenue below the tracks, Elmhurst between 98th and 80th Avenues along East 14th Street, and Brookfield Village."
>
> --- Appraiser

Several developers discussed the importance of a federal regulatory rule called R41c, which they claim depresses appraised values of properties. One developer described the rule in the following way:

> "R41c evaluation is a real issue with lenders. It causes appraisers to be more conservative in their appraisal, no doubt about it. R41c looks at the wholesale value of the property, the retail value of the property and the amount of time necessary to lease the property up to get to a break even point. The process then discounts

> present value to arrive at a wholesale value that a lender would have to sell the property at in the case of foreclosure. The lender may only be willing to lend 70% of the fair market value of the discounted, wholesale value. It's not anywhere approaching even the wholesale value of the property. This rule applies for federally chartered banks and savings and loans, and for state chartered lenders as well. This has been a relatively recent issue for us, maybe over the last two years."
>
> --- Developer

As the quotations indicate, the appraised values of properties located in lower income and minority neighborhoods of the City are routinely depressed for several reasons:

- appraisers cannot find comparable sales data;
- appraisers are unfamiliar with the neighborhoods, and carry personal biases against the neighborhoods;
- R41c evaluations lead to depressed property values assigned by lenders;
- lenders may be willing to lend in these areas only at lower loan-to-value ratios;
- long-standing practices of redlining persists on an informal and unspoken basis;
- federal regulatory rules may effectively depress property values.

A number of respondents spoke about the "image" problem of Oakland as a city racked with crime, drugs and violence. Respondents from community-based organizations, the development community, and the lending community all spoke directly or indirectly about the "image" problem of Oakland. The interview data suggest a vicious cycle of longstanding patterns of

discriminatory lending, formal and informal devaluing of properties of the City's lower income and minority neighborhoods, and widely held negative views about the image of the City as a good place to lend. As one lender put it:

> "We're appraisal driven. You've got to clean up the drugs, clean up the crime. Doesn't that make sense? If drugs are being sold on the streets, I feel real nervous about lending to businesses with the potential to go under. I don't know that the solution is the lenders. I'd have the same problem in a white community with drugs, crime and prostitution. You can't look to lenders to provide financing to people who have historically not had positive financial histories."
>
> --- Senior Credit Officer, Small Commercial Bank

2. Credit Standards

Housing credit standards routinely used by lenders have also proven problematic for Oakland's low income and minority neighborhoods. This proves to be true for both single-family and multi-family lending.

In the area of single-family lending, the greatest dilemma for homeownership is the relatively low income of Oakland's minority residents. Several respondents noted the irony of the situation where those who can afford home purchase in East or West Oakland do not want to live there, while those who make it their home cannot afford to buy there.

"I really don't think there's any such a thing as affordable housing for low to moderate income people in Oakland. I produce as cheaply as anyone. I cannot produce a house for less than $80,000. I have houses on the market I'm selling for $81,000. That's really net cost. The City is giving $11,500 as a land second. That brings the house costs down to $70,000. I've sold two of these houses at $64,000. The problem is that people in the flatlands with qualifying moderate incomes don't want to live below East 14th Street or Bancroft Avenue. The people below that in income level are simply out of the market. They cannot afford to buy anything.

If there's an answer to this problem, ideally it's a reduction in the cost of property, but this is not going to happen. The most practical answer is increased earning capacity of minority people in Oakland. We have too many rentals in East Oakland, throughout Oakland. Rental subsidies as opposed to homeowner subsidies are relatively easy to get."

--- Non-Profit Housing Developer

"We're trying to fix buyers up with modest properties. We get maybe 120 applications for each of the properties we were marketing. Something like a hundred applicants per unit. Each time a property was near completion, we were pre-screening applications for several lenders willing to work with us. They were Golden Bay Home Capital, Trans Continental Mortgage Finance, and Great Western Savings and Loan. We've seen the loan sharks and we've seen reputable lenders. We've dealt with both.

The chief problem is that 90% of the people had no conception of their income to debt. No conception of child support, student loans, personal loans, beneficial agencies, liens related to taxes. It wasn't so much a credit history problem. It was that they didn't have enough money. You have to take the high costs out of the loan. The mortgage insurance cost, the finance charges, lower the down payment.

We didn't find anyone who qualified right away and who was eligible for the subsidy programs we were working with. Only lower income people can buy these properties, according to the program guidelines. Some first-time

> homebuyers are turning their back on Oakland and going to other communities. They're at least going to areas where there's not a shooting every night."
>
> --- Executive Director, Non-Profit Service Agency

Some lenders spoke about a willingness to take more time in reviewing credit applications. Rather than summarily rejecting applicants for spots on their credit history, they will work with the applicant to understand the reasons why past credit problems occurred, and whether the applicant has resolved the problems which originally led to their credit difficulties. As a rule, the interview data indicate that large lenders are less flexible in their credit underwriting criteria, while smaller lenders may be able to take the extra time required. A credit officer from World Savings, headquartered in Oakland, indicated some flexibility in credit standards applied to Oakland properties, because the lender is so familiar with the City.

It also became clear from interviews with real estate brokers, appraisers and lenders that the credit standards of the secondary market, particularly FannieMae, dominate the credit underwriting practices of loan originators.

> "Lenders only make loans when FannieMae will. Often lenders will not make the loan unless the secondary take out is available. They want the fees and servicing and that's it."
>
> --- Participant, Oakland Housing Organizations

A review of FannieMae credit underwriting (and appraisal) guidelines, and the effect of those guidelines on the availability of affordable housing credit in Oakland, is beyond the scope of the current study. The City may wish to inquire further about how secondary mortgage market credit and appraisal standards affect the availability of credit for affordable housing in Oakland.

The foregoing discussion on appraisal practices and lender loan-to-value ratios for properties located in lower income neighborhoods is another important element in the credit underwriting equation which controls the availability of single-family mortgages in Oakland's CD Districts.

Multi-family credit underwriting is a bit more complicated than single-family underwriting. Non-profit housing developers and the consultants who assist them were a valuable source of information regarding multi-family credit underwriting practices. As noted earlier, recent experience in multi-family lending for affordable housing is concentrated among those few lenders who have made community lending commitments under CRA. These include Wells Fargo, Citicorp Savings and most recently California First Bank. SAMCO and First Nationwide Savings have also been active to a lesser degree. A brief discussion of these credit standards follows. None of these items are viewed by lenders or borrowers in isolation of one another. Rather, the lender uses these credit standards to paint a

picture of the overall creditworthiness of a project and a developer. Frequently, non-profit developers will negotiate for months with an individual lender on the credit standards and terms to be applied to a single project.

Vacancy rates is one of the credit issues discussed by respondents. In market rate apartment developments, lenders typically apply a vacancy rate of anywhere from 5% to 10%. Market rate hotel developments may have vacancy rates as high as 35% or higher. However, because affordable rental housing is so scarce, both in Oakland and statewide, developers of affordable projects have little problem maintaining full occupancy. Thus a 3% vacancy rate is often more appropriate to the underwriting of affordable rental housing projects.

Debt coverage ratios have also proven problematic in negotiations between lenders and non-profit developers. Lenders typically look for a debt coverage ratio of 1.2 to 1 or higher. That is, net operating income exceeds debt service and operating costs by 20%. All affordable rental housing projects in Oakland benefit from heavy subsidy from City, state and federal sources. It is not at all unusual to find such projects with five or six separate sources of funding. Non-profit developers argue that these are relatively risk free developments, and that lenders should accordingly reduce their debt coverage ratios. Some lenders were reported to reduce debt coverage ratios to as low as one to one.

Loan-to-value ratios are also affected by the fact that affordable rental developments benefit from so much public subsidy. Because these projects have as much as 60% to 70% of their development costs subsidized by public agencies, including the City of Oakland, lenders routinely find themselves carrying no more than 30% to 40% of total development costs in their loan. Thus, their loan to cost ratio is quite low. However, lenders have been concerned about the appraised value of these properties as low income housing. Non-profit developer respondents indicated difficult negotiations with lenders, even when their loan to costs ratio was as low as 30%.

The credit standard of track record, or the experience of the developer, has also proven troublesome. Lenders were reported to be extremely reluctant to extend construction or permanent debt to non-profit developers with relatively little experience. Compared to many for-profit developers, non-profits in Oakland have indeed produced fewer units. However, groups such as East Bay Asian Local Development Corporation, Oakland Community Housing Incorporated, Satellite Senior Homes, Christian Church Homes, Oakland NHS, and others have credible track records in the development of multi-family and single-family housing. Frequently, lenders require non-profits to enter into joint venture agreements with more experienced for-profit developers. Alternatively, a lender may request an Oakland non-profit to joint venture with a more experienced

non-profit. This was the experience of the East Bay Asian Local Development Corporation when it was asked by Wells Fargo to joint venture with BRIDGE, a large non-profit housing developer based in San Francisco.

Another credit standard which has proven troublesome to City staff is the relative unwillingness of lenders to originate either construction or permanent loans for relatively small projects. Lenders prefer larger projects for the same reason commercial banks prefer larger commercial loans: the time and effort to underwrite the loans is nearly the same, but the return from larger loans is greater.

> "But large projects aren't popular in the community. The lenders' size requirement for the project is at odds with the neighborhood desire. Typically, we like to see 10 to 40 unit developments proposed."
>
> --- OCD Staff

VI. MARKETING, BRANCHES AND PERSONAL RELATIONS

> "Marketing? Are you kidding? Waiting for the bank to call is like waiting for the Maytag man."
>
> --- Small Business Manufacturer

Marketing, or rather the lack of it, emerged as a significant concern among almost all borrowers, prospective borrowers, City staff and community-based assistance organizations. Lenders frequently acknowledged that they made no particular effort to market their loan products, and no lender interviewed reported affirmative marketing programs or techniques designed to sell loans to minority or non-profit borrowers.

Some lenders did report "promotions," or special marketing programs designed to increase the sales of a particular loan product.

> "In the two years since the Business Banking Division was established, we've only had two campaigns to market our products. These typically last four to six weeks. What we do is increase the commissions which branch managers receive for selling our loans. Most branch managers are not bankers. They're totally sales people. We market by increasing the sales commission they receive. We don't have any direct marketing system to borrowers. We've asked for our own marketing department to rev up the branch managers. But I'm not sure what's come of that."
>
> --- Senior Credit Officer, Business Banking Division, Large Commercial Bank

The sales promotion incentive system described by this banker proved common to how large California banks seem to market their products. Branch managers and loan officers typically do not have credit approval

authority. They can only receive applications, process them and forward them to centralized underwriting offices at regional locations in a few parts of the state. There the application is either accepted or denied, according to relatively standardized underwriting criteria. The branch manager or local loan officer simply informs the prospective borrower whether or not the loan request was approved. Because branch managers in large bank statewide systems must meet overall profit goals, they typically sell banking services and loan products which they are most familiar with, most comfortable with, or which provide them the easiest and quickest commission.

In this fashion, large banks may subtly undermine any marketing effort for loan products needed by low income and minority neighborhoods, such as the affordable housing, small business, minority and non-profit enterprise loans discussed in this study. In such a system, it would take a directive from upper management to initiate and organize a systemwide effort to affirmatively market loan products needed in low income and minority communities.

This kind of effort only seems to occur among small lenders such as SBA specialty lenders or mortgage bankers specializing in FHA loans to low income neighborhoods. Large banks which have made CRA community lending commitments have made concerted efforts statewide to find affordable housing projects developed by non-profits which could help those banks

meet their low income housing lending commitments. Even these institutions, however, have failed to market effectively small business loans associated with their CRA community lending programs. Beyond these examples, however, the branch system which was originally created to serve community credit needs seems to have moved away from those origins, especially among large banks.

Other commercial lenders noted that they view their market as a sector of small businesses, rather than one defined by geography. This was true of the Executive Vice President of one of California's four largest commercial banks, who noted that:

> "We have a branch in downtown Oakland, a branch at Franklin and 20th, one in San Leandro and two in Emeryville. But there are parts of the market we don't cover in Oakland. We look at basic manufacturing as one of our areas of expertise. Retailing is a relatively high risk part of the business, and one we don't necessarily go after."
>
> --- Executive Vice President, Large Commercial Bank

Other lender respondents noted efforts to advertise in business journals (e.g., The San Francisco Business Journal) for SBA loans, in mailers accompanying bank statements of current customers, or in fliers distributed to targeted prospective borrowers.

> "We only did one marketing effort. It was a drive to sell our home equity loans. It produced a lot of new loans. We went from writing one to two loans a month up to eight to ten loans a month. We sent the advertisements in the statements of our members."
>
> --- Credit Officer, Credit Union

> "It's ridiculous. B of A isn't doing half of what I do by myself. You don't have the expertise in the big banks. The banker's got to do all types of loans. The brokers in the (SBA) business know who the players are. I put out fliers to all the businesses who I think can use us. One guy found us through a big mailing I did. I get 10 to 12 inquiries a day from these mailings. I'm 200 fliers behind in my responses right now."
>
> --- Credit Officer, SBA Specialty Lender

While a few small business respondents indicated that they had been solicited by banks, the prevailing sentiment from respondents was that the marketing efforts of lenders in no way emphasize small business or affordable housing loans.

> "There's no marketing. They market home equity loans. The market auto loans. Maybe you'll see an SBA loan in a newsletter. But these programs are a side light. If you're lucky enough to come across an experienced bank person with these programs, okay. If not, it's hard to get your needs met. This just isn't a marketing goal."
>
> --- OEDE Staff

Non-profit representatives particularly felt a need for education about bank lending practices. Thus, for bank marketing efforts to be effective with non-profits, they must also include a measure of technical assistance and orientation to the world of finance in general.

> "The City is in a good position to facilitate the linkage between banks and non-profits and small businesses who need an introduction to banking relationships. We don't know the kind of financial information needed for loans. We need training and information on how to use existing financial resources. It's kind of daunting when you hear the City has money. Who do you go to? The Mayor? I'd like to see the Chamber of Commerce talk about non-

> profits and the credit needs of non-profits. Non-profits for them (the Chamber) mean the hospitals, the universities. We're the little guys. We need an advocate."
>
> --- Executive Director, Non-Profit Community Health Clinic

Another chief concern mentioned by numerous respondents was the branch closings which have occurred in recent years in East Oakland. Both Wells Fargo and Bank of America have closed branches on East 14th Street. Several respondents representing community-based organizations and neighborhood merchant associations complained bitterly about the closing of these branches, and the burden it places on small businesses and residents who remain in those neighborhoods. Other respondents noted that not a single bank branch exists in all of West Oakland, while at least a few branches remain open in East Oakland.

> "There's no physical presence in East and West Oakland. It's absolutely essential for seniors to have access to basis banking services. For young people to have access to banks for their needs. There's absolutely nothing in West Oakland. We used to have a school deposit program when I was a kid. You remember those? Open an account for a quarter or a dollar. Those don't exist anymore. It's absolutely essential that the merchants don't have to go to San Leandro or all the way across town to get respectable banking services. We have to dignify the whole banking process for housing, for consumers, and for commercial banking needs.
>
> This is a critical problem. It debilitates the revitalization of Oakland. All our public efforts are offset by the banks' reluctance. We need a physical and people presence. It's imperative to the vitality of our community."
>
> --- Executive Director, Non-Profit Business Service Organization

This sentiment was echoed by many respondents. Others talked about the importance of personal relationships in banking. A number of interviewees commented that in recent years bank personnel at the branches who are assigned to special programs such as SBA have turned over too frequently to enable borrowers to establish a personal relationship. In the absence of such relationships, small businesses, minority businesses, non-profit community-based organizations and affordable housing buyers and developers are treated by standard underwriting rules. There is no bank advocate who's known the individual or the organization for five or ten years to plead their case before a loan committee. Frequently, the result is the denial of credit.

Rotation of branch and special program (e.g., SBA) personnel results from two factors, according to respondents. The first is bank deregulation, which has generally caused larger banks to consolidate, acquire smaller banks and lose touch with individual community credit needs. The second is the relative unimportance banks place on lending for small businesses and affordable housing. These may be viewed as areas where novice bank personnel "learn the trade" only to move up the ladder to the more prestigious, highly rewarded areas of corporate finance or commercial development.

Prospective users of small business or affordable housing credit in Oakland are deeply dissatisfied and frequently bitter about the relative

unimportance they believe lenders have assigned to their concerns. They take as evidence branch closings in their neighborhoods. They point to the proliferation of high cost check cashing and lending services that have replaced conventional lenders in East Oakland, and to the utter absence of conventional lenders in West Oakland. They remark with resentment the lack of marketing efforts designed to solicit their business and meet their needs. Others feel relegated by lenders to unimportant, second rate status. Non-profits especially, and many small businesses, feel a need for technical assistance and information about how to work more effectively with the lending community.

Yet lenders feel they do serve the community well. If their institution doesn't serve a particular market niche, they assume another lender does. They acknowledge that their branch personnel have become a sales force, and are often not skilled underwriters, or trained to assist small businesses, homebuyers and non-profits with their credit needs. But they do not feel it is their responsibility to do so. Even some community advocates noted that unreasonable demands could not be made of banks:

> "You can't ask the banks to pay reparations for 100 years of neglect."
>
> --- Executive Director, Non-Profit Development Corporation

Other community advocates disagreed with this sentiment.

Perhaps the most eloquent statement suggesting how to resolve service relationships between lenders in the community came from Mr. Mike Freedland of the Corporation for Enterprise Development.

> "Why not focus on capacity, not deficiency? Oakland has one of the richest minority communities in the nation, one of the best educated minority communities in the U.S. You have a larger middle class minority community here than in most cities in the country, but because of the history of discrimination, these people are not entrepreneurial. Oakland should adopt the "entrepreneurial city" as a theme to encourage local capital to invest in the City.
>
> To provide program managers who can help by identifying good marketing data to present to lenders. Or have the lenders themselves apply their powerful market analysis capabilities to specify and define small business or affordable housing markets. This has been done in Philadelphia, in Chicago, in Meridian, Mississippi by a range of institutions: banks, community-based organizations, government agencies. Look at the opportunity, not only the deficiency.
>
> To focus only on lenders is only to focus on half the problem. You have to look at the business environment of the City. It very well may be that making the Oakland school system a place where business people want to send their children may do more to improve the business climate than a new loan program for the City.
>
> A budget item for all economic development programs should include a marketing line. We should put together consortia of banks to do joint marketing efforts, on both the bank and City side. Good examples abound throughout the Midwest. It's hard to go into some of these communities without seeing the desire to promote lending and investment at the airport, at hotels, at convention centers.
>
> I feel lenders are very willing to cooperate, but it takes two tango."

December 20, 1988

LIST OF INTERVIEWEES
OAKLAND COMMUNITY CREDIT NEEDS STUDY

Following are the interviewees for both small business, minority and non-profit enterprise credit needs (listed under ODED) and affordable housing credit needs (listed under OCD).

OEDE

<u>City OEDE Staff</u>

- Ms. Diane Banks
- Mr. Mark Beratta
- Mr. James Musante
- Mr. John Quintal
- Mr. Art Scott

<u>Non-profits and Community-based Organizations</u>

- Mr. Arnold Bellow
  Oakland Business Development Corporation
- Mr. Oscar Coffey, Northern California
  Black Chamber of Commerce
- Ms. Carol Copenhagen
  Association of Childrens Services
- Mr. Mike Freedland
  Corporation for Enterprise Development,
  Washington, D.C.
- Mr. Kwang Woo Han
  Korean Community Center of the East Bay
- Ms. Viola Vasquez, La Clinica De La Raza
- Ms. Lynette Lee, East Bay Asian Local
  Development Corporation
- Mr. Henry Mestre; consultant
- Ms. Mary Sharon Moore, Laurel/Diamond
  Reporter

- Mr. Art Scott, member of the Board;
  Allen Temple Development Company,

- Mr. Bill Stewart
  West Oakland Health Council

- Mr. Otis Turner
  Golden State Business League

Industrial/Manufacturing/Processing

- Mr. Richard Merlino, Merlino and Sons
- Mr. Ildefonso Munoz, La Fortuna
- Mr. Bob Schwartz, United Plastics
- Mr. James Sconza, Sconza Candy
- Mr. Carlos Uribe, C & J Sash and Door

Developers/Contractors

- Mr. Bruce Beasley
- Mr. Ray Castor
- Mr. William Coburn
- Mr. Ted Dang, Commonwealth Company
- Mr. John Guillory

Retail Small Business

- Mr. Clyde Brewster, The Corner
- Mr. Martin Durante, Rattos Grocery
- Mr. Bruce Jones, Crescent Theaters

Professional Service Small Business

- Mr. Jim Ishimaru, Architect
- Dr. Dorthy Okamoto, Optometrist
- Dr. James Sweeney, Dentist

<u>Non-Professional Service Small Businesses</u>

- Mr. Art Scott, Cass Management Services
- Mr. Charles Hill, Hill Loan Company
- Mr. Dick Jung, Lantern Restaurant
- Mr. Randall Reed, Reed Brothers Security

<u>Lenders and Loan Brokers</u>

- Mr. Larry Dahlstrom, Business Banking Division, Wells Fargo Bank
- Mr. Bob Roman, Adobe Savings
- Mr. Miles Jenson, Government Funding (BIDCO)
- Mr. Biff Barnard, First Capitol
- Ms. Judy Doering, Wells Fargo Business Banking Division
- Mr. Tom Huddleston, Senior Vice President, Retail Banking, California First Bank
- Mr. Ray Jones, Cal Regional
- Mr. Don Marvin, Concord Commercial Bank
- Mr. Scott Rodde National Development Council
- Mr. Merrill Stevenson, Mr. Jim Young Office of Small Business, State Department of Commerce
- Mr. Mike Howland, District Director San Francisco Regional Office of the Small Business Administration, United States Department of Commerce
- Mr. Richard Barkhurst, Executive Vice President, Northern California, First Interstate Bank
- Mr. Ray Brown, Credit Officer First Interstate Bank

- Ms. Cheryl McDonald, Community Affairs,
  First Interstate Bank

OCD

City OCD Staff

- Mr. James Branch
- Ms. Janet Howley
- Mr. Jeff Levin
- Ms. Gladys Moore
- Ms. Eloise Rubin
- Mr. Roy Schweyer
- Ms. Jeanne Zastera

Non-Profits and Community-Based Organizations

- Mr. Bob Chastain, Oakland Housing
  Organizations
- Mr. Lonnie Dillard, Elmhurst Local Development Corporation
- Mr. David Glover, OCCUR
- Ms. Lynette Lee
  East Bay Asian Local Development Corporation
- Mr. Wilbert Lee, Oakland NHS
- Mr. Dan Liebsohn, Low Income Housing Fund
- Mr. Joe Rubenzahl, Community Economics
- Ms. Fei Tsen, Tsen & Associates,
  Oakland Community Housing, Inc.

Developers/Contractors

- Mr. Bruce Beasley, Contractor
- Mr. Ray Castor, Developer
- Mr. Tim Fitzmaurice, Fitzmaurice Construction,
  General Contractor

- Mr. John Guillory, Grubb & Ellis, Commercial Developer

- Mr. Paul Wang, Developer

Real Estate Brokers

- Mr. Chuck Wims, The Charles Mae Company

- Ms. Barbara Hopper, Mason McDuffie

Real Estate Appraisers

- Mr. John Daly (Residential)

- Mr. Dene Ogden, Real Property Evaluations (Commercial)

- Ms. Alona Clifton, Appraisal Center of Northern California (Residential)

- Mr. Rudy Barker (Residential)

Lenders and Loan Brokers

- Ms. Nancy Anthony, California State Employee's Credit Union

- Mr. John Donohue, Loan Administration, World Savings

- Mr. Paul Jones, Enterprise Mortgage Services

- Mr. Gilbert Richards, Golden Bay Home Capital

- Mr. John Holoman, Senior Vice President, Community Lending, Home Savings of America

- Mr. Jim Yacenda, Community Lending, Federal Home Loan Bank Board

- Mr. Gordon Smith, Community Affairs, Federal Reserve Bank of San Francisco

December 20, 1988

QUESTIONNAIRE
OAKLAND COMMUNITY CREDIT NEEDS STUDY

The following outline summarizes questions asked of interviewees for the Oakland community credit needs study. Questions are organized for both the commercial area (under the column headed OEDE) and affordable housing (under the heading OCD). Outlined below are categories of questions. This questionnaire was used as a guide for face to face and telephone interviews throughout the course of the study.

A. Underwriting policies:

Do underwriting policies of lenders in the following areas present concerns for you? If so what are they? Are there other concerns you have about lender underwriting policies?

OEDE

- Pre-leasing
- size of loan
- security/collateral for loan
- client credit history, debt equity, net worth, income/cash flow history, liquidity
- lending to non profits
- debt coverage ratios
- "character" issue
- attitude of bank loan officer
- location of business
- use of appraisals

OCD

- size of loan
- attitude of bank loan officer
- loan to value ratio
- debt to income ratio
- debt coverage ratios
- use of appraisals
- track record
- guarantees (e.g., letter of credit, bond, net worth pledge), recourse/non-recourse
- location of property
- pre-leasing/sales
- special needs housing (e.g. single room occupancy,

B. Loan Products:

What concerns/problems do you have about the type of loan products and their characteristics offered by lenders for your credit needs?

OEDE

- pricing, rates, fees
- fixed asset financing
- line of credit
- size of loan
- expansion financing
- equipment/machinery financing
- real estate-based financing
- SBA (7a, 502, 504)
- HUD 108
- amortizing/nonamortizing
- recourse/nonrecourse
- term and flexibility in terms

OCD

- pricing, rates, fees
- single family/multi-family rehab loans
- single family/multi-family new construction loans
- single family/multi-family permanent loans
- bridge loans (e.g. for Low Income Housing Tax Credit projects)
- line of credit
- term and flexibility in term

C. Marketing:

Do you feel lenders market or advertise their services and products in a way that meets your needs? Do you have concerns about: ethnic representation of credit officers? Attitude of credit officers? Print and broadcast marketing services? Availability of credit officers to assist with questions and problems? Questions in these areas should be standard for both OEDE and OCD credit users.

D. Coordination with federal, state, local programs:

OEDE

- SBA
- Cal Regional loan programs
- tax increment financing and redevelopment
- Oakland Business Development Corporation
- BIDCO, MESBIC, and other special lending/equity finance programs
- tax-exempt financing
- Urban Development Action Grants
- revolving loan programs
- Community Reinvestment Act commitments
- HUD 108 loans

OCD

- tax-exempt financing
- FHA/VA lending
- Low Income Housing Tax Credit investments
- "Blended rate" loan programs
- Community Reinvestment Act commitments

E. Other Issues of Concern

What other credit needs or credit concerns do you have about lender performance, service, products, personnel or other categories?

Top 25 SBA Lenders in 1988

Ranked by number of loans and loan volume

Rank	Lender / Address / Phone	Number of loans	Loan volume / SBA guaranty amount	Size range of loans	Target use of proceeds	CLP available?[1]	SBA loan contact(s)	Title
1	Truckee River Bank 10015 Palisades Drive, Truckee 95734 (916) 582-3000	169	$58,559,586 $48,466,064	$10,000 - $1,000,000	Commercial property for new businesses, all SBA-authorized purposes	Yes	Steve Mattern	senior vice president
2	Tracy Savings & Loan 1003 Central Ave., Tracy 95376 (209) 836-5111	137	25,078,300 21,579,542	50,000 - 900,000	All SBA-authorized purposes	Yes	Robert Roman	vice president
3	Money Store Investment Corp. 3301 C St., Suite 100M, Sacramento 95816 (916) 443-1327	73	22,473,000 18,180,022	50,000 - 1,000,000	Working capital, equipment, inventory, commercial real estate	Yes	Wendy Given	marketing coordinator
4	Pacific Western Bank 55 River St., Suite 215, Santa Cruz 95060 (408) 458-6193	42	13,667,750 10,309,793	50,000 - 1,000,000	Purchase of machinery, equipment and inventory, working capital, all SBA-authorized purposes	Yes	Jeff Payne	senior vice president
5	First Capital Division, Financial Center Bank 160 Spear St., Suite 1280, San Francisco 94105 543-9593	30	11,800,500 9,173,260	150,000 - 1,000,000	Working capital, equipment financing and real estate acquisition	Yes	Bill Bernard	president
6	Liberty National Bank 44 Montgomery St., Suite 500, San Francisco 94104 (800) 722-9700	30	10,403,100 8,783,154	100,000 - 1,000,000	Purchase owner-occupied industrial buildings, business expansion, working capital	Yes	Richard Schulist	vice president
7	Bank of Loleta Fourth and F streets, Eureka 95501 (707) 445-3051	23	3,610,000 3,123,966	80,000 - 750,000	Business start-up, equipment [illegible]	Yes	Judy Wartella	special projects officer
8	Bank of America World Headquarters Building, Bank of America Center, San Francisco 94104 622-2096, 622-2047	22	4,411,195 3,537,211	Varies	Any business purpose	Yes	Connie Bales Keldon Cook	SBA Commercial banking officers
9	Bay Bank of Commerce 1495 E. 14th St., San Leandro 94577 357-2265	20	2,978,371 2,572,604	45,000 - 1,200,000	Commercial real estate, business loans	Yes	Bob McDoulett	vice president
10	Government Funding CALBIDCO 333 Hegenberger Road, Suite 208, Oakland 94621 638-1985	19	4,305,000 3,517,050	50,000 - 1,500,000	Debt repayment, working capital, equipment, land purchase, buildings on commercial property, construction	Yes	Miles Jensen	regional vice president
11	Allied Lending Co. 1666 K St. N.W., Suite 901, Washington, D.C. 20006 (202)331-1112	17	2,460,500 2,151,075	100,000 - 880,000	Equipment, fixtures, real estate, inventory, working capital	Yes	Dianna Seaborn Clyde Garrett Arthur Cooper	loan officers
12	Commercial Bank of San Francisco 333 Pine St., San Francisco 94104 (415)627-0333	15	4,354,250 3,682,863	100,000 - 900,000	Working capital, real estate acquisition, lease-hold improvements, equipment purchase	No	Janine Perignon	vice president and manager of SBA lending
13	Sacramento Commercial Bank 525 J St., Sacramento 95814 (916)443-4700	15	3,946,000 3,379,250	100,000 - 1,000,000	Any SBA-authorized purpose	Yes	Jerry Smith	senior vice president
14	Monterey County Bank 665 Munras Ave., Monterey 93940 (408) 649-4600	13	3,135,600 2,688,910	NA	NA	NA	Fred Rowden	president
15	Mercury Savings & Loan 7812 Edinger Ave., Huntington Beach 92647 (714)842-9333	12	4,180,600 3,510,610	25,000 - 1,000,000	Purchase of real estate, working capital, purchase of inventory, machinery and equipment or other business needs	Yes	William Cyril	senior vice president
16	Pajaro Valley Bank Main and Ford Streets, Watsonville 95077 (408) 728-2265	10	2,985,000 2,495,530	25,000 - 1,300,000	Commercial real estate, equipment, inventory, working capital, business start-up and business purchase	No	Glenn Good	vice president - SBA division
17	Suisun Valley Bank 1010 Empire St., Fairfield 94533 (707) 422-8882	5	1,031,000 871,100	80,000 - 712,000	Purchase of equipment, business start-ups	No	Susan Vargas John DiMichele	assistant vice president-loan administrator, president-chief executive officer
18	Concord Commercial Bank 2118 Willow Pass Road, Concord 94520 (415) 798-2233	4	1,336,000 1,124,307	75,000 - 850,000	Real estate acquisition or refurbishment, working capital needs	No	Don Martin	vice president - SBA loans
19	ITT Small Business Financial 4355 Ruffin Road, Suite 100, San Diego 92123 1-800-999-3488	4	1,229,000 1,058,600	125,000 - 575,000	Machinery and equipment, real estate transactions, working capital	No	Jim Morris	Western regional manager
20	First Interstate Bank 345 California St., San Francisco 94104 765-4511	3	795,648 661,840	100,000 - 750,000	Working capital, business expansion	Yes	Ray Brown	vice president
21	Savings Bank of Mendocino County 200 N. School St., Ukiah 95482 (707)462-6613	3	385,000 338,550	80,000 - 400,000	Working capital, commercial real estate, equipment acquisition	Yes	Marty Lombardi	vice president
22	Sumitomo Bank 320 California St., San Francisco 94104 445-8000	3	237,500 204,375	SBA guidelines	Varies	No	Loan officer	Branch offices
23	National Bank of Redwoods 21 Santa Rosa Ave., Santa Rosa 95404 (707)579-2233	2	960,000 807,600	180,000 - 750,000	[illegible]	[illegible]	[illegible]	senior lending officer
24	Gold River Savings 9833 Fair Oaks Blvd., Fair Oaks 95628 (916) 965-8556	2	725,100 616,335	50,000 - 750,000	Working capital, equipment, business acquisition, real estate acquisition	No	Stephen Croff	vice president
25	Cupertino National Bank 20230 Stevens Creek, Cupertino 95014 (408)996-1144	2	250,000 225,000	[illegible]	[illegible] acquisition	[illegible]	[illegible]	assistant vice president

This list is based on loans made to businesses under the jurisdiction of the San Francisco district of the Small Business Administration. Counties in the district are: Alameda, Contra Costa, Del Norte, Humboldt, Lake, Marin, Mendocino, Napa, San Francisco, San Mateo, Santa Clara, Santa Cruz, Solano and Sonoma.
Information was provided by the Small Business Administration and officers at the financial institutions.
Fiscal year 1988
[1] CLP - Certified Lending Program certifies specific lenders as having participated for at least two years in the SBA program and as having an in-depth knowledge of the program. Loans from such institutions often have a faster-than-normal turnaround time.
NA—not available at press time WND—would not disclose

Researched by Sheila Gadsden

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